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**Effective Entrepreneurial Choice:  
The Role of Rationality and Non-Rationality  
in Three Entrepreneurs' Success Stories**

**by**

**Anne Michele CHONG Siang Yoon**

**2006**

A Management Project presented in part consideration for the degree of  
Master of Business Administration.

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## **Executive Summary**

Good entrepreneurship is important for economic growth and productivity in any modern economy. The purpose of this dissertation is to research how good entrepreneurial decisions are made. In theory, optimal or rational decision making means choosing the best alternative in response to the problem. However, in reality, people do not act rationally because they often cannot make rational choices. The reason is that people do not have enough brain power, time or resources to process the complex information available to make the rational choice. These problems lead people such as entrepreneurs to make non-rational choices which have three components. The first is the use of procedures and routines. Secondly, non-rational decision makers are automatic pattern seekers and rely on their intuitions. Thirdly, they use their emotions to guide their decision making. These choices are cheap and quick but are prone to errors and biases.

In practice, which of these alternative ways of making decisions is used depends on the circumstances of choice. Entrepreneurial decision making takes place under uncertainty and continuous change. Also, the entrepreneur often faces great risks and time pressure. Under these conditions, the entrepreneur goes through a number of stages of decision making from identifying opportunities, committing resources to managing the new venture. The decisions the entrepreneur makes are also influenced by their innate personality traits, background, social pressures and childhood experiences. Cognitive theories suggest that entrepreneurs are special in the way that they make decisions.

The autobiographies of three successful entrepreneurs, Victor Kiam, Richard Branson and Anita Roddick, suggest that while they are different from each other in terms of what decision making styles they rely on most, each also employs a mixture of all styles under different circumstances. The conclusion is that entrepreneurs cannot rely on single decision making styles but need to adapt to the nature of the decision. However, it may not be possible to 'choose how to choose', as the choice styles are closely related to the entrepreneurs' individual personalities.

# 1. Introduction

Entrepreneurs are individuals who create new business ventures by identifying new business opportunities, and taking risks in committing resources to pursue them. In this role, entrepreneurs are seen as the driving force behind innovation and change in the economy. It is widely believed that entrepreneurship makes a vital contribution in increasing productivity and economic growth. As a result, a large supply of effective entrepreneurs is crucial to any modern economy. Many government policies are directed towards this objective. Increasingly, academics are trying to address this issue and inform government policies by assessing where entrepreneurship comes from and how good entrepreneurial decisions are made.

This dissertation aims to make a contribution to this issue by studying good entrepreneurial decision making in practice. In particular, we will apply theoretical views of how decisions are made to the experience of three successful entrepreneurs. We will analyze the entrepreneurial choices these individuals describe in their autobiographies and try to match them to the theoretical concepts. This is intended to show which types of decision making are part of effective entrepreneurial choice. Is it the case that all good entrepreneurial decisions follow the same principle of choice, or do different principles all have a part to play for a given entrepreneur? Do different entrepreneurs use different decision making styles? If so, which styles apply under which circumstances and for what entrepreneurs? In the following, we hope to give answers to these questions.

To answer them, the dissertation is structured as follows. In chapter two, we will look at theories about different principles of decision making. These theories come from economics as well as psychology. They include rational choice, bounded rationality, intuitive choice as well as the influence of emotions on decision making. For each of these, we will describe how decisions are made and what the advantages and disadvantages are. Also, we will consider whether these principles are descriptions of how people make choices or guidelines of how they should decide. The chapter will

provide an overview of the ways in which entrepreneurial decisions can be made in theory.

In chapter three, we look at the context of entrepreneurial decision making. In the chapter, we will define entrepreneurship, the role of the entrepreneur, and discuss what makes entrepreneurs in practice. This chapter will rely on the academic literature in the field of entrepreneurship. The chapter will provide the background that is needed to apply the theoretical principles of decision making to the particular case of entrepreneurial choice.

The application of the decision making theories to entrepreneurship will take place in chapter four. This chapter presents the original empirical analysis of the dissertation. The purpose of the chapter is to find out which kinds of decision making are effective and useful for entrepreneurs. The method we will follow is to look at the cases of three very successful entrepreneurs who have published their memoirs. These autobiographies contain a lot of useful information about how they made their most important entrepreneurial decisions. In the chapter, we will quote these entrepreneurs and analyze which decision making principles were involved in their choices. In other words, we will match the practical cases with the theoretical concepts outlined in the second chapter.

The final chapter is the conclusion of the dissertation. After a brief summary of the main points, we will interpret the findings of the dissertation to answer the overall research question mentioned in the beginning. We will also put the main findings in the general context of entrepreneurship and how to improve it to increase economic growth and efficiency. Then, we will mention some of the problems in the research and also explain what future research on this topic could be done.

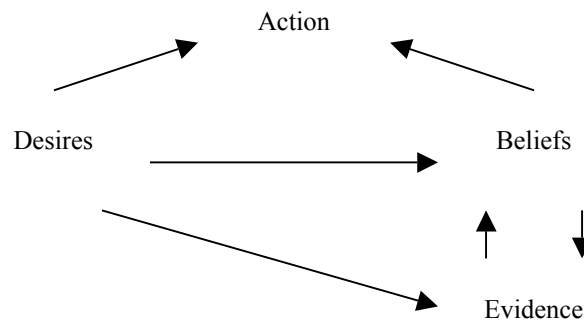


## 2. Theories of Choice

There is choice because people have limited resources and decisions need to be made on how the resources should be used efficiently. Choice occurs under different conditions. Choice takes place under certainty when people know the outcomes for the given actions. Choice under uncertainty (i.e. risk as well as strategic interdependence) means people do not know for sure which of possible outcomes will result from their given actions as these are co-determined by chance or other decision makers respectively. There are many tools, models and theories to predict and explain how people actually choose, and to advise how to make good decisions. In the following, we will outline and assess these theories, starting with rational choice theory (section 2.1.), the traditional assumption of decision making used in economics and sometimes in other social sciences. Subsequently, a number of alternative accounts will be discussed which have been proposed in response to a number of criticisms of the theory, including bounded rationality (2.2.), intuitive decision making (2.3.) and emotional influences on choice (2.4.). Section 2.5. will conclude this chapter.

### 2.1. *Rational Choice*

People are said to be rational when they do the best for themselves under the given circumstances, which means with the information available, they choose the best alternative to meet their goals or objectives (Elster, 1989, p. 22; Hargreaves Heap *et al.*, 1992, p. 3-4; Allingham, 2002).



**Figure 1: Rational Choice (from Elster 1989, p. 31)**

As shown in figure 1, the rational decision maker chooses the action which best satisfies his *desires* on one hand and based on his *beliefs* about the choice on the other. Desires are the decision maker's tastes, wants, needs, goals, objectives, motives, aims etc. This reflects the welfare or satisfaction which the outcome which an action brings about. In rational choice theory, desires are represented by preferences, which are a ranking of the different possible outcomes in terms of satisfaction (Hargreaves Heap *et al.*, 1992, p. 5, p. 346). Preference orderings can be represented numerically using utility functions, which give numbers to preferences to express by how much different outcomes are preferred to one another. Although utility is cardinal, it does not represent a measurement of satisfaction, and does not allow utilities to be compared across different people (Hargreaves Heap *et al.*, 1992, pp. 368-369). In addition, utility is treated as given, i.e. not subject to rational analysis (Elster, 1989, pp. 30-31). As noted by Allingham (2002, p. 26), "utility is not a measure of happiness or well-being: it is simply a numerical representation of preference" (p. 26). In addition, rational choice depends on the decision maker's beliefs about the decision environment. Whether and how beliefs are formed depends on the conditions of choice, i.e. whether decisions are made under certainty or uncertainty.

### **2.1.1. Rational Choice under Certainty**

Rational decision making under certainty, i.e. when the outcomes of particular actions are known, means identifying the optimal course of action given the decision maker's

utility function, i.e. choosing to maximize utility. We can use a simple example to show the process. Imagine a decision maker that has to choose one of three flavours of milk shake from a vending machine, sold at the same price. The three buttons on the machine correspond to three actions, each associated with a particular flavour drink. The preference ordering must specify preference, indifference or lesser preference between the three flavours. In the example, A1 is preferred to A3, which in turn is preferred to A2, according to the decision maker's tastes. The amount of relative like and dislike is then expressed as the utility function where higher numbers reflect greater utility. The numbers can be compared to show degree of preference, but cannot be compared to those of other people. To be rational, the action that gives the maximum utility should be chosen, i.e. A1 in the example.

Action	Outcome	Preference Ordering	Utility Function
A1	Raspberry milkshake	1 <sup>st</sup>	9
A2	Banana milkshake	3 <sup>rd</sup>	2
A3	Chocolate milkshake	2 <sup>nd</sup>	6

**Table 1: Choice under certainty**

### **2.1.2. Rational Choice under Risk**

In conditions of uncertainty, an action can have different outcomes. Under risk, the outcome that results from the decision maker's chosen action depends on 'nature' and is treated using probabilities. As displayed in figure 1, the decision maker forms beliefs or expectations over the likelihood of the different outcomes from evidence that is collected. The rational decision maker under risk therefore chooses an action to maximize *expected* utility (EU). Again, we refer to the above simple example for illustration. We can incorporate risk into the example by imagining the vending machine is faulty, and pushes on each of its different buttons will produce either of two flavours according to certain probabilities as shown in table 2.

Actions	Outcomes						
	Outcome 1	Utility	Prob	Outcome 2	Utility	Prob	EU
Action 1	Raspberry	9	1/2	Banana	2	1/2	5 1/2
Action 2	Raspberry	9	1/3	Chocolate	6	2/3	7
Action 3	Chocolate	6	2/3	Banana	2	1/3	4 2/3
Action 4	Chocolate	6	1	-		0	6

**Table 2: Choice under risk**

In the example, choosing action 1 carries a 50% chance of a raspberry drink being produced, and a 50% chance of banana. As a result, the utility that results is not certain but depends on chance. Given the probabilities, and the utility function in table 2, the expected utility of action 1 is  $1/2(9)+1/2(2) = 5.5$ . Similar calculations can be done for each action. The rational choice is action 2 as it yields the highest EU. As a result, rational choice under risk involves both utility functions and subjective probability distributions over the possible outcomes, which the decision maker may derive from experience or collecting evidence. Elster (1989, p. 30) notes that rational choice involves collecting the optimal amount of information, and processing it to generate optimal beliefs and expectations.

### 2.1.3. Axioms of Rational Choice

Expected Utility Theory (EUT) shows how people would decide given conditions of risk. The mathematical representation of utility requires certain conditions hold with respect to individuals' preferences (see, for example, Plous 1993, Hargreaves Heap *et al.* 1992, pp. 5-11. Allingham 2002).

#### a) Preference ordering

A choice is considered rational only if it can be represented by a preference ordering. This means that any two alternatives can be compared; either one better than the other or they could be indifferent. In table 1, raspberry milkshake is most preferred followed by chocolate milkshake and the least preferred banana milkshake. This condition is sometimes known as reflexivity and completeness (e.g. Hargreaves Heap *et al.*, 1992, p. 5).

#### b) Dominance

Based on EUT, rational decision makers should choose the dominant strategy i.e. the strategy that yields the best outcome under all circumstances. Referring to table 2, a rational decision maker should choose action 4 if he most preferred the chocolate milkshake because it would then give superior utility under any circumstances, i.e. whatever outcome nature selects.

#### c) Cancellation

According to EUT, the common factors between two alternative actions should be cancelled out. Comparisons of alternatives should only take into account outcomes that are different. In table 2, when choosing between action 2 and action 3, the factor that gives the same utility and probability (the outcome of chocolate being produced) should not be used as a basis for decision making as it appears in both actions.

#### d) Transitivity

The Transitivity Principle holds, as in table 1, that if a person prefers raspberry milkshake to chocolate milkshake, and chocolate milkshake to banana milkshake, then he should prefer raspberry milkshake to banana milkshake.

#### e) Continuity

For any set of outcomes, it should always be possible to construct a gamble between the best and the worst outcome that is preferred to one where an intermediate outcome is certain. Consider actions 1 and 4 in table 2. Action 4 yields the intermediate outcome, chocolate, for certain, whereas action 1 in effect is a gamble where both the most and least preferred flavours are possible outcomes. Continuity is satisfied if there are probabilities such that action 1 gives higher EU than action 4. This is the case if the probability of raspberry in action 1 is greater than 0.55.

#### f) Invariance

A rational decision maker is said to have consistency in their choice. In deciding between alternatives, he should not be affected by the way information or alternatives are presented, i.e. by the style or presentation of the milk shake containers in the examples.

#### **2.1.4. Assessment**

To assess the theory of rationality, we need first to be clear on what its purpose is. There are differing views on whether rationality choice theory is a normative or positive theory. On one hand, it is often argued that rationality theory explains how people should act (the normative view). For instance, Baron (1994, p.56) states that the theory of rationality advises people how to make *good* decisions. These models and theories help people to think and structure before a decision is made. Good thinking considers the attainment of a person's goals, whatever the goals may be (Baron, 1994). According to Elster (1989), rational choice theory explains *how* humans behave. In doing so, it must first determine what a rational person would do in the given situation. Secondly, it should find out whether this is what the person actually did. Zey (1998, p. 23) described the theory as both normative and positive. It is normative because it tells what one should or ought to prefer and to choose. At the same time, utility theory may be positive because it also asserts that people behave rationally if they act within the defined rationality principles. As a result, the theory may be criticized on both counts, i.e. to the extent that it fails to predict correctly, and to the extent that it provides poor advice. There are both empirical and theoretical criticisms of the rational choice theory.

Elster (1989) lists a number of theoretical difficulties, all of which relate to the components of rational choice in figure 1. Rational choice theory can fail on the utility side of the diagram when there is indeterminacy. This happens when there are a number of alternatives that are equally good or when they cannot be compared in terms of the satisfaction they give. This might be because uncertainty associated with them. In addition, people may fail to choose the best for themselves given the circumstances. If a person knowingly acts against his desires, he is said to be irrational. Examples may be simple errors in carrying out the optimal action, i.e. pressing the wrong button of the vending machine by mistake, or weakness of will, as when someone on a diet wants to avoid the fatty chocolate milk shake in favour of a healthier flavour but gives in to temptation. On the belief side, irrational beliefs may lead to irrationality when the evidence collection or processing is insufficient or even

biased on the basis of expectations or own desires, i.e. when the same dieter convinces himself that chocolate has positive health effects or ignores the label on the container indicating nutrition information. Rational action may also be self defeating, e.g. when the person on a diet forces himself to stop thinking about chocolate.

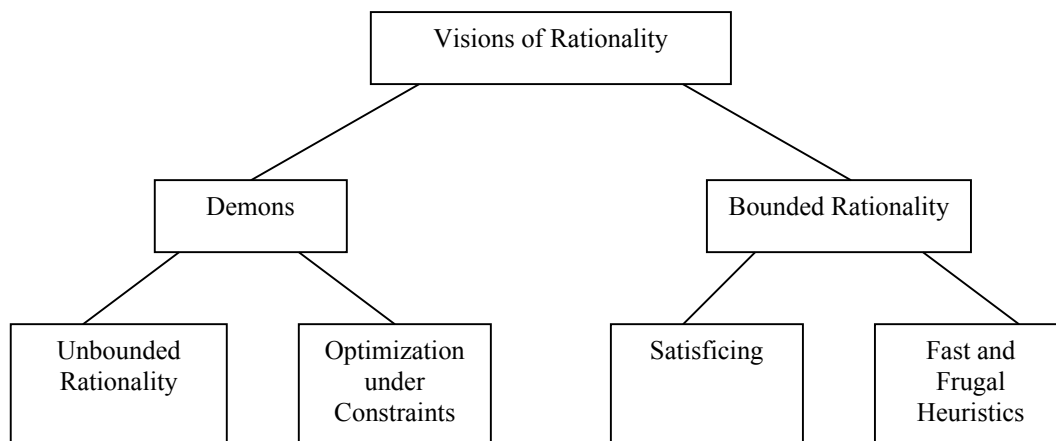
These theoretical problems sometimes make EUT have problems as a guide to good decision making. In addition, there are empirical criticisms of EUT which show its failure as a positive theory. In reality, EUT does not reflect enough the way people make actual decisions. The EUT axioms outlined are sometimes violated. The below are example cases from experimental evidence with laboratory subjects that are faced with risky decision problems. In the *Allais Paradox*, the cancellation principle is often violated when decision makers choose between two alternatives based on the common factor rather than on how both alternatives differ. This is because people seem to pay too much attention to small probabilities of very high or low-utility outcomes (Hargreaves Heap *et al.*, 1992, p. 38). Similar experimental violations have become known as the Ellsberg Paradox and Preference Reversal. In addition, experiments have shown intransitivity and framing effects. For instance, in one experiment, individual's choice in cancer treatment was seen to depend on whether their prospects were expressed in terms of survival or death rates (Hargreaves Heap *et al.*, 1992, p. 40, Plous, 1993).

## **2.2. *Bounded Rationality***

Rational choice requires the availability of complete or perfect information and the individual decision maker to have unlimited computational processing ability. In reality, people might not be able to work out the complex expected utility calculations needed to choose the outcome that maximizes their satisfaction and people are tend to be affected by other factors such as the way information is presented. Herbert Simon first criticized that it is impossible for people to have the mental capabilities that go beyond the structure of environment. Rationality theory fails because of two reasons; the fact that there is no perfect information (informational problems) and even if people have all the information available, they do not have the capabilities necessary to process them (cognitive limitations). As further mentioned by Gigerenzer and Todd (1999), the greatest weakness of rational theory is therefore that it does not explain the way people actually think. It is also unrealistic to assume people's preferences to remain fixed because new tastes are produced when people gain new experiences (Simon, 1981).

Optimal decisions of the rational theory can only be achieved when the traditional assumptions of the simplified model of the world hold. However, the visions of rationality often conflict with reality. In the real world where there is much complexity and uncertainty, people are bounded by limitations and constraints. Therefore, it is impossible for people who have limited time, knowledge and computational ability to make rational choice or to optimize their utility. Real life decisions involve agents whose information gathering, processing and storing skills are limited.





**Figure 2: Visions of Rationality (from Gigerenzer and Todd, 1999, p. 7)**

As a result of these objections, the models of decision making proposed by researchers can be differentiated according to the demands they make on information and cognition by the decision maker. As illustrated in figure 2, the visions of rationality proposed over the years are divided into two parts. One side assumes infinite human ability to absorb and process information and they are said to optimize under constraints. Gigerenzer and Todd (1999) described unbounded rationality as models of reasonableness called ‘demons’, which means ‘*divine supernatural being*’ that postulated humans to have unlimited mental capabilities. These views have been criticized on the basis of the limited cognition and information real humans possess. In response, others assumed that people optimize under such constraints with the given resources when they stop searching for better alternatives as soon as the search costs outweigh the benefits. However, according to Gigerenzer and Todd (1999) as well as Conlisk (1996), the problem with this approach is that to identify the optimal point to stop searching itself is an optimizing calculation, leading to an infinite regress of optimization.

Simon has proposed an alternative theory on the basis of his pioneering criticisms, i.e. the *bounded* or *procedural rationality* model. In general terms, this involves non-optimizing human decision making under complexity and limited information as well as cognition. According to Simon (1983), procedural rationality is a behavioural model that describes how people make decisions and solve problems (i.e. it presents a

positive view of decision making). The model is meant to capture how people make decisions under constraints given limited time and knowledge (Gigerenzer and Todd, 1999).

Simon's notion has been taken up by many subsequent writers and developed into a number of alternative versions of bounded rationality. The right-hand side of figure 2 shows the two main versions that have appeared according to Gigerenzer and Todd (1999), i.e. *satisficing* as well as *fast and frugal heuristics*. The following two sections outline these two forms of procedural rationality:

### **2.2.1. Satisficing**

As explained by Simon (1978, 1981), the theory of bounded rationality emerges because of two components; the limitations of the human minds (the *inner environment*) and the structure of the environment in which the mind operates (the *outer environment*). The early theories of choice have mostly focused on the inner environment and do not take into account the uncertain and complex environment that could hinder people from making the optimum decision. Due to the cognitive limitations, people must use near to accurate rather than optimizing methods to handle their tasks (Simon as cited in Gigerenzer and Todd, 1999). Even though people still have the desire to satisfy their preferences, they have no choice because they are bounded by limitations (Simon, 1981). In view that people are not fully informed, they satisfice rather than optimize. People can only make decisions that are good enough rather than decisions that maximize utility. Satisficing as defined by Gigerenzer and Todd (1999) is "*a method for making a choice from a set of alternatives encountered sequentially when one does not know much about the possibilities ahead of time*" (p.12). With limited time and knowledge decision makers do not need to find out all the available alternatives and consequences in the future (Gigerenzer and Todd, 1999). Satisficing creates short-cuts to decision making by following the simple aspiration level stopping rules. The search for alternatives stops when the current level of experience exceeds the aspiration level (Conlisk, 1996 and Simon, 1981).

### 2.2.2. Fast and Frugal Heuristics

The notion of satisficing resolves the infinite regress constrained optimizers face when deciding when to stop search. It focuses on the evaluation of decision alternatives under bounded rationality. Another approach to cognitive limitations is based on the *processes* people use to make decisions. Difficult decisions are made using heuristics and simple decision rules (Gigerenzer and Todd, 1999). These are procedures, rules of thumb and routines people use repeatedly for similar and frequent decision problems. Heuristics guide search and assist people to make decisions that satisfice. Simple heuristics work well to yield adaptive decisions if the structure of heuristics is fitted and adjusted to its environment (Gigerenzer and Todd, 1999 and Simon, 1978, 1981). According to Gigerenzer and Todd (1999), there is a need to study the structure of the environment and the structure of heuristics and match between them (this is termed *ecological* rationality).

As described by Gigerenzer and Todd (1999), “fast and frugal heuristics” use sequential search for alternatives that employ minimum time, computation, and knowledge. These are fast because they follow simple steps and procedures and frugal because they economize on the limited resources available. As further mentioned by Simon (1978), as the human mind is a scarce resource, procedures and rules help to economize by creating short-cuts to decision making. Unlike rationality, heuristics provide cheap solutions with lesser time and effort. These heuristics apply simple procedures and rules-of-thumb in decision making and problem solving (Hargreaves Heap *et al.*, 1992) that draw on experience and follow past patterns and structures (Conlisk, 1996). Rules or steps are set to similar and recurring decision-making problems. Procedures that worked well in the past are adopted for similar problems in the future. Decisions resort to experience or intuition at some point in time (Johansen, 1977 as cited in Conlisk, 1996). “*New heuristics are developed from the parts of the old ones, rather than from scratch*” (Pinker, 1997; Wimsatt as cited in Gigerenzer and Todd, 1999). As Conlisk (1996), Gigerenzer and Todd (1999) and Simon (1978, 1981) explained, to satisfice, people use heuristics to make choices that adapt to the real environment. A method that worked previously when faced with the same decision can be repeated. At the same time, searching requires intelligence;

people have to search selectively by identifying past structure and patterns and replacing optimal requirements with satisficing requirements.

### **2.2.3. Assessment**

Bounded rationality has gained wide acceptance among researchers as an alternative to rational choice that describes how actual people make decisions in the face of cognitive and information constraints. When applied, the theory has many implications for economics as it is very different to the ideal world of the perfect markets of neo-classical economics. It is a positive theory that describes actual decision making. However, we have also seen that people who make decisions this way face a trade-off between the accuracy of their choices and the time and effort it takes to decide.

Bounded rationality is linked to two other ways of making non-rational decisions that have been discussed by writers such as Simon. Intuition is a way of discovering and updating routines whereas emotions might be way of focusing attention on important information (Simon, 1983). Some people may think that these two alternative theories of choice are distinct decision making styles, but Simon relates both to non-rationality. The next section will talk about intuition choice and emotional influences on choice.

### **2.3. *Intuitive Choice***

A second, related alternative to rational choice has also come from the important work of Herbert Simon (1983, 1987). As we have seen, rational choice theory explains how people *should* behave when making decisions. In rational choice, decisions made are characterized as explicit, conscious and analytical. People follow procedures and steps before deciding on an action and are aware of the way the decision is made. However, in the business world, managers often do not follow all the procedures required especially when rapid decisions need to be made. Due to time constraints, there is no way people could analyze all the options or alternatives available. In addition, not all decision making takes place explicitly and at the conscious level of reasoning. Business managers often rely on intuition in their decision making and

may not be aware of the origin of their judgements (Simon, 1983). As opposed to rational choice, intuitive decision making is implicit, subconscious and judgemental. All crucial decisions call on both analytical and judgemental skills. In the following, we will look at what intuition is how the process of intuition works in decision making, and finally discuss some of the advantages and disadvantages of intuitive decision making.

### **2.3.1. Intuition**

In contrast to the well-developed models of rational choice and bounded rationality, intuitive choice is a relatively new view of decision making which has come from a few contributions to diverse fields such as business studies and cognitive science, artificial intelligence and operations management. Also, a number of popular self-help books have been published on this topic. As a result, no definitive definition of intuition exists. Broadly, intuition involves experiences such as “discovery and invention in science, inspiration in art, creative problem solving, perception of patterns and possibilities, extrasensory perception, clairvoyance, telepathy, precognition, retrocognition, feelings of attraction and aversion, picking up ‘vibes’, knowing or perceiving through the body rather than the rational mind, hunches, and premonitions” (Vaughn, 1989, p. 40, see also Goldberg, 1989). In our decision-making context, intuition does not refer to parapsychological experiences (Rehm and Gadenne, 1990, p. 5), but rather is a psychological term for a decision-making style otherwise known as hunch, gut feeling, instinct, inner voice, snap judgement or sixth sense (Frantz, 2003, Hayashi, 2001, Gladwell 2005). We can begin by distinguishing ‘non-rational’ intuition from traditional rational choice by comparing how they are described in the literature. The attributes below best explain the differences between rational and non-rational decision making (collected from Simon 1983, 1987; Myers, 2002, p. 31; Rehm and Gadenne, 1990, pp. 4-7; Lieberman, 2000; Frantz, 2000, 2003; Hayashi, 2001).

<b>Rational Choice</b>	<b>Non-rational Choice</b>
<ul style="list-style-type: none"> <li>• Reasoned, calculating, deliberative</li> </ul>	<ul style="list-style-type: none"> <li>• Intuitive, judgemental</li> </ul>
<ul style="list-style-type: none"> <li>• Consciously analytic</li> <li>• Explicit</li> </ul>	<ul style="list-style-type: none"> <li>• Non-conscious</li> <li>• Implicit</li> </ul>
<ul style="list-style-type: none"> <li>• Well structured</li> <li>• Sequential</li> <li>• Logical process</li> <li>• Symbolic, formal</li> <li>• Quantitative</li> </ul>	<ul style="list-style-type: none"> <li>• Loosely or unstructured</li> <li>• Unordered, rapid</li> <li>• Non-logical</li> <li>• Automatic, informal</li> <li>• Qualitative</li> </ul>

**Table 3: Characteristics of Rational and Non-Rational Choice**

As can be seen in the table, intuition has a number of defining attributes. Firstly, intuition works at the non-conscious level such that decision makers are unable to articulate or account for the resulting judgement or decision (Simon, 1983, pp. 57-58; Rehm and Gadenne, 1990, p. 6; Hayashi, 2001, p. 172). People continuously process information that they are consciously unaware of and when faced with a situation, they find themselves learning something that they already knew (Hayashi, 2001). Intuition is further described as unconscious reasoning because people are not aware of the process or steps used in reaching a conclusion (Rehm and Gadenne, 1990). It is *“our capacity for direct knowledge, for immediate insight without observation or reason”* (Myers, 2002, p. 1, see also Rowan, 1989, p. 84) attained by informal reasoning that lacks the use of analytical methods (Kahneman and Tversky as cited in Rehm and Gadenne, 1990; Lieberman, 2000). In other words, people are not aware and able to explain how they know about something or how the decision is being reached (Myers, 2002). Intuition often takes place during relaxation when careful analysis on problem is not being performed (Rehm and Gadenne, 1990). Experts solve problems instantaneously without being able to explain how they have reached the solutions (Simon, 1987).

Secondly, intuition is based on automatically and rapidly matching previous experience and learning to the decision problem. For instance, Simon (1983) characterizes intuition as “applying one’s professional ‘judgement’ to the situation”

(p. 59). This type of decision making depends on information processing based on a person's expertise and experience, which is said to be often correct (Simon, 1983). Intuition is the fact that people reach solutions to their problems instantaneously (Simon, 1983) as it were in the mind of the individual decision-maker (Riel, Ouwersloot and Lemmink, 2003).

### **2.3.2. Pattern Recognition or Thin Slicing**

What is the process by which the mind is able to perform this type of automatic and non-conscious reasoning based on experience? Simon (1983) described the intuitive process as *pattern recognition* based on experience and habit that happens subconsciously, which by-passes the conscious steps of rational analysis. Similarly, according to Gladwell (2005), intuition is rapid cognition known as *thin-slicing*. Thin-slicing is "the ability of our unconscious to find patterns in situations and behavior based on very narrow slices of experience" (p. 23). Thin-slicing happens unconsciously and it is automatic and fast and does not require much effort. People use thin-slicing whenever they encounter a new situation or have to make sense of something quickly. Experience enables the decision maker to store information in ordered and systematic *chunks* or memory patterns. When needed, knowledge learned from the past is retrieved from a person's memory (Frantz, 2003; Simon, 1983). This is due to their ability to recognize familiar patterns stored in long term memory (Simon, 1987). When a situation calls for particular information, people will be able to associate it with past patterns and experience to help them make rapid decisions. These patterns and rules are matched to the decision maker's perception of the choice problem. In this sense, Simon (1983) argues that intuition is analytical thinking instilled into routine that enables fast responses through recognition of recurring situations. Intuition is provoked when a person is faced with problems, and drawing on his experience, he will have the feeling of what the right solution could be (Riel, Ouwersloot and Lemmink, 2003). Simon (1983) uses the example of chess playing to illustrate the process of intuition. Compared to the amateur or novice player, the grandmaster possesses greater

knowledge, gained by long experience, of the kinds of patterns and clusters of pieces that occur on chessboards [...] Associated with each pattern in his or her memory is

information about the significance of that pattern – what dangers it holds, and what offensive or defensive moves it suggests. Recognizing the pattern brings to the grandmaster's mind at once moves that may be appropriate to the situation. Previous learning that has stored these patterns and the information associated with them in memory makes this performance possible (p. 60).

The ability to apply these patterns to different contexts is called *cross-indexing* (Hayashi, 2000) and it increases with greater experience. Simon (1983) also mentioned that intuition requires high level of intellect and the amount of time and number of steps needed for a decision depends on the degree of expertise and experience of the decision maker. Information stored in memory is expressed as a large encyclopaedia where each piece of information is associated or linked with other thoughts by developing familiar patterns and cross-referencing. Expert intuition is therefore more sophisticated based on the superior application of a greater vocabulary of patterns stored in the expert's memory. The vocabulary of chess chunks of grandmasters has been estimated to be in the region of 50,000, similar to the natural language vocabulary of college student (Simon, 1983, p. 60). Experts are therefore individuals that have learned large such vocabularies in their fields of expertise. Compared to novices, experts who have more experience take up less time and steps in solving a problem. Experts use patterns and rules that elicit relevant facts from memory and avoid analytical thinking for matters that require rapid decisions (Hayashi, 2001; Simon, 1983).

### **2.3.3. Intuition in Management**

Similar to expertise in other areas, intuition has been argued to be a powerful source of excellence in business leadership and enterprise (Isenberg, 1984; Harper, 1988; Agor, 1989; Hayashi 2001). For example, Agor (1986a) found that in his sample of over 3000 managers, the top executives had significantly better intuitive skills according to a number of test dimensions than other managers. In a follow-up study, Agor (1986b) concludes that top managers most frequently rely on and trust in their intuitive skills in making their most important decisions.

How does intuition help managerial choice? Isenberg (1984) outlines five ways in which business leaders use intuition in their decision making. Intuition can alert the manager to the existence of a problem that needs attention. For instance, Harper



(1988) argues that intuitive managers are more perceptive of organizational situations and know which questions to ask to identify problems that may elude others. Secondly, intuition can allow the manager to perform routinized functions and procedures quickly and automatically. Third, intuition can help to integrate separate pieces of information into a coherent 'big picture' view. Similarly, Harper (1988) argues that the special skill of top executives essentially involves intuitive thinking to "to see the forest without getting lost in the trees" (p. 113). Fourth, intuition can provide a test of results of formal decision-making methods. Finally, intuition provides an alternative to detailed and deep analysis when time or resource pressures exist. In addition to these five, Harper (1988) argues that excellent intuition separates top executives from ordinary business managers by "providing them with different perspectives and different approaches for managing in these turbulent times". As a result, they "see things that other people don't see and incorporate factors computers still can't handle. This quality, more than any other, may be what separates the true executives from the hundreds and thousands of managers". Intuition gives novel and even revolutionary solutions to given business problems. In this way, some of the top business leaders "capitalized on their intuitive skills and changed the way people live and work today. As entrepreneurs, they were gamblers" (pp. 112-113).

#### **2.3.4. Assessment**

As suggested at the beginning of this section, intuitive and heuristic choice have similarities, in that both involve rapid decision making which reduces the complexity of the environment as well as decision making costs by focusing on salient information. For Simon (1983), who was central in the development of both views,

there is no contradiction [between them] nor do the two models represent alternative modes of thought ... All serious thinking calls on both modes, both search-like processes and the sudden recognition of familiar patterns [...] in most problem situations combining aspects of novelty with familiar components, intuition and search will cooperate in reaching solutions" (p. 109).

For Simon (1983, 1987), intuition is complementary with analytical thinking and both are essential for effective decision making. Intuition based on rapid pattern recognition is not an independent process; it requires the use of analysis to confirm and to draw inferences of these patterns. Without intuitive judgement based on

recognition and experience, every decision regardless its importance will have to go through painful search that takes up much time and effort.

What are the implications of people's use of intuition and routines for the quality of decision making? While the use of intuition in everyday life often has a health warning attached to it, Simon (1983) argues that "a great deal of human thinking, and a great deal of the success of human beings in arriving at correct decisions, is due to the fact that they have good intuition or good judgment" (p. 106). In Gladwell's (2005) words,

We are innately suspicious of this kind of rapid cognition. We live in a world that assumes that the quality of a decision is directly related to the time and effort that went into making it [...] And what do we tell our children? Haste makes waste. Look before you leap. Stop and *think*. Don't judge a book by its cover. We believe we are always better off for gathering as much information as possible and spending as much time as possible in deliberation. We only really trust our conscious decision making. But there are moments, particularly in times of stress, when haste does not make waste, when our snap judgments and first impressions can offer a much better means of making sense of the world....decision made very quickly can be every bit as good as decision made cautiously and deliberately (pp. 13-14).

Although intuition often gives suboptimal decisions, it sometimes is as good or better than decisions made cautiously and deliberately (Gladwell, 2005, p.14 Lieberman, 2000, p.109). As a result, intuitive choice can be learned and improved, explaining the many intuition self-help manuals available today.

## **2.4. *Emotions and Choice***

There are alternatives to rational decision making because in reality, people cannot reach the normative standard of rationality due to information problems and cognitive limitations. Bounded rationality and intuition are both positive theories that explain how people actually make decisions. Emotions are the third positive model that describes how people actually make choices in complex environments. However, in economics and business studies, not much has been written or researched about emotions because of two reasons: first, it is difficult to incorporate emotions into

existing theoretical frameworks. Secondly, ever since the ancient Greeks, there has been a preconception that emotions lead to bad decisions. While emotions have been widely studied within psychology, only a small number of social scientists, such as Robert Frank (1988) and Jon Elster (1996, 1998) have paid serious attention to this issue. In the following, we will define the concept of emotions and discuss how emotions affect the decision making process.

### **2.4.1. Emotions**

As defined by Oatley *et al.* (2006) from the viewpoint of psychology, emotions are *“multi-component responses to challenges or opportunities that are important to the individual’s goals, particularly social ones”*. Similarly, for neuropsychology, *“an emotion is defined as a collection of changes in body and brain states triggered by a dedicated brain system that responds to specific contents of ones perceptions, actual or recalled, relative to a particular object or event”* (Bechara and Damasio, 2005). However, Elster (1999) questions whether different emotions have enough in common to warrant a common definition. The reason is that although emotions are similar in the way they show themselves in bodily responses, different emotions are produced by different brain systems with different functions (LeDoux, 1998, p. 127). As a result, Elster argues, there is little agreement on the definition, membership and classification of emotions as well as on their nature. Nonetheless, Elster (1996, 1998, 1999) argues that emotions are characterized by the following six attributes:

- 1) emotions are intentional, i.e. directed at something, such as a state of affairs or another person.
- 2) emotions result from beliefs about others’ mental states, actual and counterfactual states.
- 3) emotions can, in turn, modify or create other mental states.
- 4) emotions have action tendencies, i.e. lead to urges or impulses, readiness potential for certain behaviour.
- 5) emotions are accompanied by physiological expressions and arousal, such as facial expressions, hormonal changes, palpitation, skin resistance etc. Visible expressions may serve as a cue to others.

- 6) emotions have valence, i.e. they are experienced as along a scale of positive, indifferent or negative.

On the basis of this, Elster (1998) distinguishes five types of emotions. Social emotions include anger, hatred, guilt, shame, pride, pride-fulness, admiration liking. Counterfactual emotions include regret, rejoicing, disappointment and elation. Emotions regarding possibilities are fear and hope. Emotions regarding past events are joy and grief. Others' possessions can trigger emotions such as envy, malice, indignation and jealousy. Other emotions include contempt, disgust, romantic love, boredom, surprise, interest, desire, enjoyment, worry and frustration. Evans (2001) has classified emotions differently. There are two different kinds of emotions; the basic emotions and the culturally specific emotions. Basic emotions include joy, distress, anger, fear, surprise and disgust. These emotions are not learned (innate) and they are universal (same in all cultures). Basic emotions are rapid and developed under minimal special conditions. For example, a child that is provided with all his basic needs will grow up with all the traits that are inborn in humans. On the other hand, there are culturally-specific emotions, the state of 'being a wild pig', for instance, an emotion unique to the people from Gururumba, New Guinea. This happens to young men when they start having responsibility, and then "run wild, looting articles of small value and attacking bystanders" (Evans, 2001, p.17). They are not innate or universal. Cultural specific emotions require special conditions over the basic necessities to develop i.e. conditions that are experienced only by particular cultures. These emotions are learned since young and when one is exposed to them by their culture.

#### **2.4.2. Emotions and Decision Making**

As psychological events, emotions moderate actions and decision-making in systematic ways. Emotions are related to cognition in a number of ways (Oatley *et al.*, 2006). Emotions can arise as a result of the decision makers' beliefs about the environment. Emotions can also influence choice and adaptation to the decision environment through their impact on a number of cognitive processes such as perception, attention, memory, thinking and judgement (Oatley *et al.*, 2006). In the

following, we will look at these cognitive processes to see how and whether emotions affect them in helpful or disruptive ways.

Firstly, emotions can have an impact on attention. In the complex and ever-changing environment, emotions play an important role to simplify decision making by redirecting and focusing people's attention to particular stimuli and information in the environment (Simon, 1983). In addition to highlighting information, emotions also help to prioritize among alternative objectives in decision-making (Simon, 1983). Going back to the milkshake example, a rational decision maker may be indifferent and unable to choose between two flavours because of conflicting objectives. One flavour may be tastier and the other may be less fattening. Negative emotions caused by the prospect of weight gain can prioritize objectives towards the healthier flavour. In turn, the decision maker's attentions may thereby become focused on particular pieces of information, such as the list of ingredients on the bottles.

Secondly, emotions can influence perception. Based on experience, people's visual perception tends to be biased towards things that are congruent with their current mood and emotions to guide adaptive action (Oatley *et al.*, 2006). Current moods and emotions redirect people to selectively perceive objects and events are congruent to current feelings. It can be seen how emotionally-biased perception can influence decision making in figure 1. Rational choice is based on collecting unbiased evidence, which may fail when strong emotions are present, leading to inconsistent, intransitive or otherwise irrational decisions.

Thirdly, emotions give preferential access to certain memories. According to Oatley *et al.* (2006), people are able to remember and recall past events that are emotionally arousing better than relatively neutral events. Emotional events are said to remain more salient in people's memory. A person's current feelings and emotions can lead to biased recall of past emotions, for example, people who are feeling happy are more likely to recall positive emotional events and vice versa. In addition, studies showed that people do protect themselves from unpleasant thoughts because they seem to recall pleasant events better than unpleasant ones.

Emotions and moods can also affect judgment. People's evaluative judgment can be influenced by their current positive and negative emotional state (Oatley *et al.*, 2006). An object or event can be judged as good or bad even though they have no semantic relationship to the cause of the emotions. When in positive moods, people gave more positive evaluations of objects and events while in negative moods, they tend to assess the same objects and events in a more negative way (Oatley *et al.*, 2006). Furthermore, current moods and emotions form a person's view of the future. People in positive emotional states look at the future in a more optimistic manner whereas people in negative emotional states view the future more pessimistically (Oatley *et al.*, 2006).

### **2.4.3. Assessment**

Ever since Plato's allegory of the passions and reason pulling the chariot of the human personality, there has been a preconception that emotional responses undermine rational thought and good decision making generally. Elster (1999) outlines the possibility of emotions having a negative impact on his view of decision making (see figure 1), i.e. by compromising the picking of the optimal course of action, belief formation, and evidence collection. Emotions can induce wishful thinking i.e. alter the judgment of future events, such as the likelihood of outcomes or the efficacy of out own actions. Emotions can induce irrational actions, such as anger at states that cannot be changed. Emotions are also often thought to be responsible for weakness of will, when the decision maker chooses an action with bad long-term consequences (De Sousa 1987).

However, as in the case of bounded rationality and intuition, more recent writers point to the contribution emotions make to effective choice. The neurologist Antonio Damasio (1994) reports his examination of patients with brain injuries that have damaged their emotional responses. In one case, this type of injury made it impossible for such a patient to do simple tasks such as scheduling future appointments in reasonable time despite intact reasoning skills (Damasio, 1994, p. 193). Procrastination was in this case caused by the absence of emotions telling the decision maker when to stop thinking. In this sense, emotions can have the role of the stopping rule in boundedly-rational search. Similarly, De Sousa (1987) argues that

emotions can reduce a problem when the decision maker knows too much or too little. In addition, Elster (1999) argues, emotions can help resolve indifference and incommensurability of decision alternatives by providing a feeling about which the best alternative is. Emotions can also help the decision maker adapt to the social environment and norms through guilt and embarrassment. Also, positive emotions, leading to optimistic assessments, can motivate the decision maker for action, whereas negative emotions and depression can take motivation away.

## **2.5. Assessment**

In this chapter, we looked at four views of decision making. Rational choice implies identifying the best alternative after collecting and using available information optimally. This model is mainly a normative standard of choice as well as the assumption underlying many economic models. However, a number of empirical and theoretical criticisms of the model have caused a number of alternative positive theories that aim to describe how real decision are made in practice, i.e. when the decision maker is faced with informational and cognitive constraints. The three alternatives discussed are bounded rationality, intuitive as well as emotional choice. The three models are complementary and not alternative views of the decision-making processes of real people, evidenced by Herbert Simon's pioneering contributions to all three. Non-rational decision making based on the three generates relatively good decision in environments characterized by complexity, limited information, change and the decision maker's own limitations. They simplify the environment by focusing on important stimuli and detecting patterns and responding using routines and procedures. As we have seen, Simon believed that good decision making in practice relies on all these processes. On the other hand, non-rationality and relying on psychological processes has drawbacks in the particular weaknesses of human cognition generally. While non-rational choice allows decisions to be made under these limitations, the quality of these decisions is generally less than under rationality. There are tradeoffs between cognitive effort and judgemental accuracy with the use of fast and frugal heuristics (Conlisk, 1996). Since decisions made are not based on full search for all available information, transaction or information costs are minimized and decisions can be made relatively quickly and cheaply. On the other hand, the

decisions made in this way may not be as accurate, and are likely to be systematically sub-optimal.

In particular, a large number of systematic decision errors that arise in the use of heuristics have been identified in the literature (see Plous 1993, chapter 8). In general, such decision errors arise because information gathering, processing as well as making inferences from it are subject to systematic human biases. Many experiments have been conducted that showed how lay people as well as professional experts are prone to these problems. For instance, the evaluation of decision alternatives is often influenced by the order in which they are presented, or by the contrast between different alternatives. The first and the last alternatives are usually remembered better, depending on whether there is a delay between presentation and decision making. The evaluation of an alternative in absolute term can depend on how it looks compared to other alternatives presented at the same time. People's judgement can be manipulated by irrelevant information they are given (anchoring effects), by how easily alternative outcomes can be brought to mind and imagined (availability effects), the way information is presented (framing effects), by social pressure of peer group members or people in authority. People are naturally poor at calculating probabilities and perceiving as well as understanding randomness. Information collecting is often biased towards confirming rather than disconfirming evidence, in terms of what people expect to find, what they would like to find.

There are three types of bias that are particularly important for entrepreneurial decision making as discussed in this dissertation. Firstly, information collection can often depend on people's expectations (self-fulfilling prophecies) and desires (wishful thinking). The decision maker is more likely to perceive, remember and recall situations in line with those preconceptions. This will mean that the decisions that they make can rely on information that is not objective. This is particularly the case for individuals who have strong emotions or belief in themselves. A person's emotions can affect every part of their decision making. When these emotions are too strong, they can lead not only to wrong information but can cause the decision maker to choose too quickly, not at all or the wrong alternative. Overconfidence in one's own knowledge or ability can also disturb decision making. In one experiment, about a thousand business people were asked to give estimates of various things such that



they were ninety percent certain of their answers (Russo and Schoemaker, 1990). Between fifty and ninety percent of answers were actually incorrect. Overconfidence can also happen in groups such as management boards. This is called groupthink and can happen when the group has a strong leader and is faced with an important decision under time pressure, when they are isolated from other people and feel superior to them. This condition can lead to disastrous decisions because contradicting and different opinions are brushed under the carpet.

### **3. Entrepreneurial Choice**

As we have seen in chapter two, the theory of rational choice is important as a normative standard of decision-making. It is an essential concept of economics that assumes all resource allocation is done rationally. If all the underlying assumptions of rationality hold, there is a perfect allocation of resources and the market can reach its equilibrium. However in practice, people tend not to behave rationally because of insufficient information and cognitive limitations. In such markets, firms are best described as boundedly rational because they do not have all the information required to make good decisions. Without complete information on the environment, it is impossible for firms to always produce the right goods that could meet the consumer demand or to satisfy their needs perfectly. Moreover, decisions made by managers can be affected by other factors such as conflicting objectives and emotions. When ideal rationality fails, price may not always function properly as the mechanism that coordinates between demand and supply in the economy. As the result, the need arises for an alternative mechanism to drive the activities of the market. Real markets may therefore show disequilibrium and inefficiency. Since people are imperfectly informed in the real economy, search activities for new information, opportunities, consumer demand and etc. need to be carried out. This role has been attributed to the entrepreneur, who conducts search activities for information that the market lacks and make adjustments to market changes to achieve dynamic efficiency.

As a result, it is believed that entrepreneurial activities are crucial to economic growth (Baumol, 1968; Casson, 2003). The importance of such activities to the functioning of the economy and the potential for profit for individual entrepreneurs has generated a separate discipline within business economics and management that examines the environment in which the entrepreneurial decisions are made, the characteristics of the individual entrepreneur and the process of entrepreneurship. For our current purposes, the following will highlight entrepreneurship theory as it relates to the entrepreneurial decision making process. We start by defining the entrepreneur and outlining the role he or she carries out in the economy (section 3.1.). Next, we will look at entrepreneurial choice in terms of the environment within which entrepreneurs

make their decisions and the stages that their decision-making processes consist of. (3.2.). Finally, we turn to look at the causes and determinants of good entrepreneurial choice (3.3.). An assessment of entrepreneurship theory is provided in section 3.4. Taken together, these sections will provide the theoretical background for the analysis of real life entrepreneurial activity in chapter four.

### **3.1. *Entrepreneurship***

Entrepreneurship theory has its roots in economic theory. In the neo-classical model of the economy, perfect conditions generate efficient resource allocations. If the neoclassical theory of the perfect market is maintained, there is little scope for entrepreneurship (Casson, 2003, p. 12; Kirby, 2003, p. 14). The role for the entrepreneur arises when these conditions are not met and information is not perfectly distributed and transaction costs are not zero. There are two facets to entrepreneurial activity, the taking on of risk and the creation of a new venture. Firstly, entrepreneurs exploit market disequilibrium. In such conditions, entrepreneurial activity involves taking risks for the prospect of profits rather than risk management and avoidance as in corporate management. For instance, price setting in the real world is costly and entrepreneurs gain high profit in compensation for the risks taken trading at disequilibrium prices. As mentioned by Casson (2003), entrepreneurs have a different perception of the situation and these differences exert influence on the way resources are allocated. According to Shane (2000), Hayek argued that the discovery of opportunity is a function of the distribution of information in the society. Entrepreneurs capitalize on the imperfection of the market to earn supernormal profits in the short term.

Secondly, entrepreneurship is often associated with the creation of new venture and management of small business (Kirby, 2003). It is described as '*the creative extraction of value from environments*'. According to Carland *et al.* (1984, p. 358), "an entrepreneur is an individual who establishes and manages a business for the principal purposes of profit and growth and is characterized principally by innovative behaviour". The entrepreneur acts as the fourth factor of production that coordinates and combines other factors together in productive ways that create value to satisfy

consumer needs (Kirby, 2003). Kirby (2003) summarized the role of entrepreneur is to search new ways to combine economic factors to satisfy human needs (to innovate), manage the resources effectively and profitably (to create new organizations) and create wealth by adding value (to generate employment). While entrepreneurship as mentioned by Timmons (1989, p. 1) is “the ability to create and build something from practically nothing [...] it is the knack for sensing an opportunity where others see chaos, contradiction and confusion”.

### **3.2. *The Entrepreneurial Process***

Having identified the role of the entrepreneur in the economy, we now turn to how entrepreneurial activity takes place. Entrepreneurial decision making is different from managerial decision making in five business dimensions; strategic orientation, commitment to opportunity, commitment of resources, control of resources and management structure (Hisrich *et al.*, 2005). Entrepreneurs are pressured by risk and the need to make fast decision, whereas managers focus at long term commitments. The resources available to entrepreneurs are periodic and usually difficult to obtain, often based on certain objectives. On the other hand, managers’ desire the greatest control of their resources and their commitment is only for the total amount needed. Entrepreneurships have a flat and informal organizational structure, whereas the managerial domain is marked by formalized and hierarchical systems.

Typically, entrepreneurs face the following type of decisions in the four stages of entrepreneurial process; identification and evaluation of the opportunity, development of the business plan, determination of the required resources and the management of the resulting enterprise.

The first stage of the entrepreneurial process is the identification of opportunities. This is a difficult task that depends on the entrepreneur’s ability to recognize opportunities and foresee a potential business venture. Entrepreneurs identify business opportunities through different sources such as the consumers, business associates, members of the distribution system and technical people. These people help entrepreneurs to understand the products and services needs in the market.

Through interactions with these people, ideas can be obtained (invention), which can be applied / translated into developing new business opportunities i.e. new products and services (innovation). Nevertheless, not all opportunities identified can be acted on. Entrepreneurs need to assess the viability of the business; whether the returns are sufficient to cover the costs and the risks involved. Opportunity assessment includes the description of the product or service, assessment of the opportunity, the entrepreneur and the team, specifications of all activities and the resources required and identify the source of financing the venture. At the same time, it is crucial that the opportunity fit the personal skills and goals of the entrepreneur to ensure the success of the venture. In addition, the entrepreneur must believe in the opportunity to be fully committed.

The second stage of the entrepreneurial process is to develop a business plan i.e. the plan on how to execute the opportunity, from determine the resources needed, getting the resources to the management of the enterprise.

The third stage requires the entrepreneur to determine the resources needed to start the business venture. While resources are scarce, entrepreneurs need to be prudent with their use; minimizing the capital to start the business by keeping overheads low, productivity high and ownership of capital assets to the minimum. Entrepreneurs must assess the resources that are essential for the company's success as well as what the company can do better than its competitors. If the business is to develop a new high-tech product, the most important resources will be the engineers with their technological expertise. The resources should then be focused on recruiting and retaining of these engineers and safeguarding the intellectual property produced. Proper planning needs to take place in order to avoid the risks of not having sufficient and appropriate resources when needed.

The fourth stage of the entrepreneurial process includes the implementation of the business plan using the acquired resources as well as the management of the newly set up enterprise. The entrepreneur has to administer the day-to-day operations of the company and solving problems as the company grows.

### **3.3. The Entrepreneurial Individual**

Successful decision-making in these stages are the basis of successful entrepreneurship and new venture creation. Who is responsible for this? According to Bridge *et al.* (2003), the term enterprise carries two main meanings. In the narrow economic application, enterprise is equated to small business or the process of starting the business. The broad or education approach regards enterprise as a type of behaviour displayed in the actions of different *individuals*. An individual's enterprising acts are seen as the source of change. Individuals are said to demonstrate enterprising behaviour when they actively seek opportunities, as well as initiate and develop a business venture. They take control of situations and create opportunities for themselves when the situation permits. These individuals see and do things in a creative manner to improve consumers' satisfaction. At the same time, entrepreneurs are imaginative and persistent in locating and organizing the resources required and the ability to show pro-activity, flexibility, self-confidence, perseverance and dynamism when dealing and solving obstacles and problems along the way.

What makes an individual to be an entrepreneur? A literature exists why some individuals identify and seize business opportunities and others fail to do so. Numerous arguments exist about whether entrepreneurs are 'born or are made'. Personality traits, psychological and demographic factors have been investigated in this context (De Carolis and Saporito 2006). Many people assumed that entrepreneurs are born such that they have certain innate characteristics that give them the ability to be enterprising and if a person does not possess such characteristics, enterprising behaviour cannot be developed by later upbringing. This group of people view the internal influences on individual's behaviour as more important whereas those who believed enterprising behaviour can be made or learnt to some extent examine the external influences. As a result, the extent of enterprising behaviour and entrepreneurship can be influenced by the *internal* factors i.e. attributes possessed by the entrepreneurs as well as the *external* factors i.e. the environment in which these entrepreneurs operate. In this section, we will be looking at both types of factor that could have an impact on the whether an individual is entrepreneurial. Various theories and models have been developed for both. The personality theories, psychodynamic approaches and behavioural theories argued that entrepreneurs'

behaviour and actions are driven by their innate qualities whereas the economic approaches and sociological approaches considered the external factors and social structures of the environment as influences that lead people to act entrepreneurially. We will consider these below.

### **3.3.1. Social Influences on Entrepreneurial Activity**

A number of studies highlight the ways in which the individual's environment influences entrepreneurial development. There are a number of external factors in the environment that could influence decision-making. These influences include the cultural, political and socio-economic environments which are all interlinked.

The cultural conditions under which the entrepreneurial activity takes place can affect its development (Kirby, 2003; Bridge *et al.*, 2003). It is important to have a positive social attitude towards enterprising behaviour to support and promote entrepreneurial activities. There is no standard and universal culture that motivates and encourages entrepreneurship but rather cultures that could increase or decrease their activities to a certain extent. These cultural conditions include the entrepreneur's religion, education, family, history and role models (Kirby, 2003). All these inputs to cultural conditions can either stimulate or hinder entrepreneurial behaviour. The political system in a country can affect entrepreneurial activities, for example, democratic countries promote enterprising behaviour whereas dictatorships discourage enterprising acts. Apart from the political environment, the economic conditions and stability of a country can also affect the development of entrepreneurship. If the economy of a country is predictable and certain, there is less room for entrepreneurship because market forces could reach its equilibrium without a need for change and innovation. Entrepreneurs work well in environments where there are much uncertainties and flexibilities. Sociological approaches argue that individuals are shaped by the social environment. An individual's opportunities and career choices are influenced by their social role, education, skills and experience, as well as the prevailing norms and conventions.

### **3.3.2. The Entrepreneurial Personality**

In contrast to theories focusing on social influences, personality theories suggest that enterprising acts are influenced by the personality or traits of an individual such as achievement motivation, risk-taking propensity and the desire for control. Entrepreneurs also tend to have a strong need for autonomy, are proactive and independent, creative, self confident, persistent, have the ability to deal with failure, trust and are moderate risk-takers.

The degree of risk taking differs between individuals, based on their experience and education, but also according to personality factors such as their perception of the situation, their self confidence in it and their motivation (Delmar, 2000). Entrepreneurs also tend to be individuals with a strong psychological need for personal achievement, and not so much financial reward. Such individuals tend to seek out situations where new ventures can be created, where there is scope for their individual responsibility and where knowledge and anticipation of future conditions can be used to make good risk-taking judgements (Johnson, 1990). Entrepreneurs tend also to be individuals with an internal rather than external locus of control, i.e. tend to believe that the success or failure of ventures is down to them rather than to others or factors beyond their influence (Delmar, 2000). Conversely, entrepreneurs dislike external control, but cherish the freedom to make their own decisions and express their individuality. These traits may be the result of the typical entrepreneur's optimistic outlook generally and overconfidence in their independent abilities to succeed.

Psychodynamic approaches based on Freudian psychoanalysis of personality state that people are influenced by their childhood experiences and subconsciously; these experiences shape their behaviour and personality. Individuals also have strong drives and look for gratification. For instance, poor relationships with parents or authority figures can create frustration, deviant behaviour and marginalization that can express itself in later entrepreneurial activities (Kets de Vries, 1977).



### **3.3.3. Entrepreneurial Cognition**

However, there are criticisms of the traits and personality theories. Clear differences between the personalities of entrepreneurs and other individuals could not be convincingly established (Baron, 1998). Most real entrepreneurs do not possess all the traits as explained by the theory and many of the traits and qualities are found in those who would not be described as entrepreneurs. Delmar (2000) argues that the traits theory has a number of weaknesses. The traits associated with entrepreneurship are sometimes inconsistent, they are assumed to remain static, which does not reflect the changing environment in which entrepreneurs operate. In practice, the environment is always changing and traits could also change over time. Furthermore, Delmar asserts that traits are culturally dependent and the trait research was mostly based on the American culture. Delmar (2000) as well as Busenitz and Barney (1997) and Baron (1998) claim that it is more useful to look at the cognitive processes that could affect the way entrepreneurs make their decisions. The cognitive approaches emerged as an alternative theory that argue while the inborn traits of individuals may be useful in determining who becomes an entrepreneur, it is even more crucial to analyze the thinking and decision making process by which individuals choose to behave entrepreneurially (Baron, 1998, Bridge *et al.*, 2003). The cognitive theory argues that decisions are made on the basis of perceived reality rather than of reality. Entrepreneurs are said to perceive and therefore make decisions differently to ordinary business managers (Busenitz and Barney, 1997, Baron, 1998). According to Boyd and Vozkis (1994), people's behaviour is influenced by intentions, which are dependent on the person's attitude. Cooper, Woo and Dunkelberg (1986) investigate entrepreneurs' assessment of business prospects and find similar and large degrees of optimism of entrepreneurs with respect to their own, and to a slightly lower extent, of similar ventures by others. Optimism was not related to preparedness or objective statistics relating to business prospects. Optimism may be due to locus of control and "post-decisional bolstering" as well as new venture euphoria.

Palich and Bagby (1995) found that entrepreneurs are not necessarily more risk taking than business managers, but tend to assess business situations much more positively, explaining why they are more likely to commit resources. Busenitz and Barney (1997) assess to what extent differences in decision-making processes can explain

entrepreneurship and identify greater scope for decision errors and biases here. In particular they argue that heuristic and non-rational decision-making is particularly useful for entrepreneurs in order to cope with complexity quickly to grab opportunities. In their comparison of 124 entrepreneurs with 95 business managers, they found that entrepreneurs are more likely to over-generalize and are significantly more over confident. Baron (1998) also argues that the conditions of entrepreneurial choice are particularly susceptible to decision errors and biases, such as due to uncertainty, complexity, change, emotions, time pressure, stress and fatigue. These errors occur due to certain cognition, such as counterfactual thinking, affect infusion, attribution styles planning fallacies and self-justification.

### **3.4. *Assessment***

Entrepreneurship is important for economic efficiency because people cannot be rational according to the theory and we need individuals that can find new opportunities and take risks to commit resources towards them. To encourage more and better entrepreneurship, we need to know how these individuals come to make good entrepreneurial decisions. There are many theories to explain this, and they are often seen as alternatives. These include theories that focus on social influences, those that focus on internal factors, and those that look at how entrepreneurial perception and then decision making is different to that of other business people. We can see easily though that these theories are all related and all have a contribution to make. Good entrepreneurship means making good decisions in the special conditions of risk, time pressure and complexity entrepreneurs face. But how decisions are made could be related both to the background and social factors the person faces and their own inherited traits and learned skills and characteristics. We now want to test the theories of decision making of chapter 2 and of entrepreneurship in this chapter to find out what makes good entrepreneurial decisions in reality by looking at the cases of three famous and successful entrepreneurs.

## **4. Three Cases of Entrepreneurial Decision Making**

The purpose of this dissertation is to identify how effective entrepreneurial decisions are made. So far, we have identified different decision making styles in theory and considered the entrepreneurial decision environment in practice. In this chapter, we will apply the various decision making styles to the three cases of entrepreneurial decision making; Richard Branson, Victor Kiam and Anita Roddick. All three people selected are very successful entrepreneurs in their own ways. The purpose of the case application is to identify how good entrepreneur decisions are made in practice by studying the autobiographies of these people. This method is based on the assumption that the decision making style that these three individuals used is the basis of their business success. In other words, whatever decision making they describe in their autobiographies should be part of effective entrepreneurial choice.

Richard Branson is a British entrepreneur known for his Virgin brand, a typical self-made man who created things from nothing. He formed the Virgin Group, which consists of companies of many different industries. He runs his business with much informality and using his good people skills. As we will see, his decisions are mostly driven by his emotions and instincts. Victor Kiam is an American corporate entrepreneur who became well known for his commercial saying “I liked the shaver so much, I bought the company”. Rather than starting a new business venture, he bought an existing company to run. He is a knowledgeable man who uses his business experience in the management of his companies. We can also see rational thought in Kiam as he believes information as the key to any business success. Anita Roddick is a British entrepreneur who started business life based on her alternative lifestyle and developed her business around supporting social and environmental causes. She said her life and business is all about storytelling. Since she had no training or experience in business, she relied heavily on her husband’s advice. She uses more emotional approach to decision making.

The autobiographies of the three entrepreneurs focus on their entrepreneurial success and to that extent should highlight what made these people’s decision making good or

effective. However, it should be noted there could be error and biases because these entrepreneurs might be subjective or selective in their recollections. In addition, they may not be conscious of whatever decision making has generated their success. The method of analysis of the cases adopted here is to accept these autobiographies at face value and to study what they said about themselves, i.e. their self reports and introspection, in terms of the theory presented previously.

## **4.1. *Three Entrepreneurs***

We start with an overview of the biographies of the three individuals chosen. These are contained in their own stories but are also discussed elsewhere (see Earl and Wakely, 2005, pp. 62-85).

### **4.1.1. Richard Branson**

Richard Branson was born in 1950 in Shamley Green, Surrey and received his first education at Scaitcliffe School until the age of 13. Then, he attended Stowe School until the age of 15. Branson was good at sports and that has helped start his career. However, he suffered from dyslexia, which resulted in him not doing well academically.

Branson went into business at the age of 16, publishing *Student* magazine and when he was 17, he formed his first charity, the *Student Valley Centre*. After three years, he started his first record business, the Virgin mail order and subsequently opened a record shop in Oxford Street, London. Branson used the profits earned from his record business to build a studio in Oxfordshire in 1972. Virgin Record's first release was Mike Oldfield's *Tubular Bells*, which was the best selling album at that time. The company later went on signing major names such as Sex Pistols, The Rolling Stones, Culture Club, Janet Jackson, Peter Gabriel, Simple Minds and The Human League that have all helped make Virgin Records a major player in the international music business. By the early 1980s, Virgin Records was one of the top six record companies in the world.

In 1984, Branson was offered the opportunity to enter into the airline business between London and New York. Branson bought the idea even though faced with many objections by his fellow directors. Branson then started the Virgin Atlantic Airways which afterwards became the second largest long-haul international airline operating services out of London's Heathrow and Gatwick Airports to 21 destinations all over the world. In order to sustain his airline company, Branson sold the Virgin label to Thorn EMI in 1992 and used the proceeds to improve on Virgin Atlantic's service. Later, he set up V2 Records to re-enter the music business and other areas such as night clubs, book and software publishing, film and video editing and hotels. In late 1999, Branson formed a global partnership with Singapore Airlines and agreed to sell a 49% stake of Virgin Atlantic to them.

In 1997, Branson entered into another riskier business venture, the railway business. Virgin Trains won the franchises for the former Intercity West Coast and Cross-Country sectors of British Rail but then later ran into problems that almost damage the company's reputation in the late 1990s.

In 1999, Branson launched the Virgin Mobile and in 2000, set up Virgin Blue in Australia and in 2000, failed in a bid to handle the National Lottery. Branson later acquired the European short-haul airline, Euro Belgian Airlines and renamed his airline company Virgin Express. His continued business exploits include; the setting up of Virgin Nigeria as the national airline based in Nigeria, Virgin America to launch out of San Francisco International Airport in 2007, the Virgin Cola brand, the Virgin Vodka brand, Virgin Galactic, a new space tourism company to take Virgin passengers into space by late 2007, Virgin Fuel to exploit the spike in fuel costs by offering cheaper fuel for automobiles as well as for aircraft in the future.

Virgin has expanded into many different industries from music into air and rail travel, mobile phones, finance, retail, internet, drinks, hotels, entertainment and so on, with around 200 companies in over 30 countries in 2004.

Branson received the honorary degree of Doctor of Technology from Loughborough University in 1993 and in 1999, he was awarded a knighthood for his services to entrepreneurship. Branson is also the Patron of the International Rescue

Corporations, an independent UK registered charity and he appears at No. 85 on the 2002 list of “100 Greatest Britons”.

Branson continuously sets himself challenges in both his personal life and business life. He believes that one should go beyond one's limits to grab hold of every opportunity at any given time to succeed.

#### **4.1.2. Victor Kiam**

Victor Kiam obtained his Bachelor of Arts degree in 1948 at Yale. He then furthered his studies and graduated from Harvard Business School with a master's degree in business administration in 1951. Kiam's first job was with Lever Brothers as a management trainee, where he was trained as a salesperson for the company's cosmetic products.

After four years with the company, Kiam joined Playtex in 1955 as a sales manager. His positive attitude and enthusiasm enable him to rise rapidly to executive vice president of marketing for International Latex. Kiam then left Playtex to join the Benrus Corporation, a company that produces expensive watches and jewellery, as their chief executive.

Later, Kiam sought advice from a friend who was the director of one of the most respected headhunting company in New York who suggested he either start a new company or buy into an existing company to run. He claimed in his book that this advice has changed his life and gave him the push he needed to begin his entrepreneurial path.

In 1976, Kiam got to know that Remington, an electric shaver company, was available for sale but he did not consider it because he did not know anything about the shaver business and at the same time he was involved full-time with the Benrus Corporation.

Two years later, when Kiam was reading Business Week on an interview conducted with the chairman of Sperry Corporation, the parent of Remington, he found out that

the chairman of Remington was still interested to sell the company. That was the right time to consider the acquisition because Kiam has left Benrus Corporation and was actively looking to buy a company. Kiam wasted no time in finding out about Remington's situation but contacted Remington's chairman and obtained the company's financial records to study its operations, narrowing down to the shaver business. Kiam conducted his own market research, testing the Remington's shaver against the top of the line shaver of each of the leading brands. Furthermore, he asked the retailers of Benrus who also carried shavers to find out more about the shaver business. After much research, Kiam found out that Remington had the best shaver in the market but did not constitute the majority of market share. The main problem was because its management did not know how to market and sell their product. Kiam said he knew the Remington's shaver was a winner and with the right management and improved marketing, the company could be turned around. At that time, Remington was making huge losses. Kiam saw business opportunity with Remington when other people were sceptical about it.

In the same year, Kiam bought the Remington company after getting financing from a bank. Kiam managed to turn around Remington quickly after implementing changes in the management and strategies of the company. He personally wrote and starred in the Remington commercials aired worldwide and since then, he was known as the man who liked the Remington shavers so much that he bought the company. The advertisement spread from the US to Britain and this has made Remington and Victor Kiam a household name.

Kiam was also the majority owner of the New England Patriots and the chairman of Ronson Plc., a British cigarette lighter company. Furthermore, he ran a firm that marketed TravelSmart, a line of travel-related products.

Kiam remained the chairman of Remington until his death at the age of 74. Kiam said he enjoyed selling most as well as bringing new products to market and developing companies.

#### **4.1.3. Anita Roddick**

Anita Roddick was born in Littlehampton, Sussex in 1942 as the child of an Italian immigrant couple. She was the third of four children. Her parents owned a cafe in Littlehampton, which was later converted by her father into the first and only American diner in town. Since young, Roddick had to help up at the diner. Her father died when she was ten years old and her family had to work even harder to continue the business. This has taught Anita important lessons for entrepreneurs and she learned how important personalities are in business

Roddick learned about trading while attending convent school. Her mother had tried to direct her into teaching. After high school, Roddick entered the teacher-training college. She studied at the Newton Park College of Education and Bath for three years. She finally gave up her ambition to become an actress when she declined the offer from the Guildhall School of Music and Drama. In 1962, Roddick got a scholarship to study the children of Kibbutzim in Israel for three months. However, a prank got her expelled from the Kibbutz. After that, Roddick returned to England to complete her degree at Newton.

Roddick held several jobs following school; she worked for the International Herald Tribune in Paris, taught for a short period in England and worked for the United Nations in Geneva. After that, she took her savings and travelled across the Indian Ocean, to Australia and Johannesburg. She was sent back to England after she violated the apartheid laws in South Africa. Roddick learned many different cultures in the different countries.

When she returned to Littlehampton, she met Gordon Roddick, a 26-year old Scotsman who was a poet and traveller. In 1971, they were married while she was pregnant with their second child. They ran a restaurant and small hotel in Littlehampton. After three years, they felt overworked and needed a change of direction. Roddick supported her husband's decision to go off for two years to ride a horse from Buenos Aires to New York City and she was left with their two children.



In 1976, when Roddick was thirty-three years old, she opened the first Body Shop, a natural, environmentally friendly cosmetic shop to support the family. She used the hotel as collateral to finance the shop. In order to keep start-up costs low, she packaged her product in small plastic recyclable bottles and painted the walls of the shop green to cover the damp spots.

After gaining much support from her customers, Roddick opened a second store in Chichester by turning half the business to a gas station owner named Ian McGlinn. When Gordon Roddick returned in 1977, the Body Shop had become very popular and many customers were interested to start their own Body Shop branches. Since then, Body Shop stores were run by family and friends of the Roddicks.

The Body Shop was different from any other cosmetic companies. Roddick proclaimed that she dislikes the idea of the beauty business that sells unattainable dreams, lying, cheating and exploiting women. With this in mind, the Roddicks developed the unique philosophy of the Body Shop to create profits with principles. Furthermore, they aimed to create social and environmental change through the business.

To stay within the profits with principles philosophy, Roddick did not use money to pay for advertisements. Instead, she focused on the quality of products and customer satisfaction. She relies on customers' word of mouth as the only 'advertisements' to bring in sales. Body Shop gained publicity through its social and environmental change campaigns and activities. In addition, Roddick is very careful in selecting her employees. Only employees who have the same philosophy as the Body Shop are hired. At Body Shop, sales people are trained to be knowledgeable but not forceful. Information about each product is made available to the customers.

The Body Shop grew from a single store in Brighton, England in 1976 to a multi national company with 1,980 stores in 50 countries in 2004. In 1993, Roddick was one of the five richest women in England. In 1985, she was awarded the London's Business Women of the year and in 1988, she was awarded an Order of the British Empire. She was also named the Communicator of the Year, Retailer of the Year in 1988 and received the United Nations' "Global 500" environmental award. However,

it is believed that her husband had contributed much to Roddick's success. In her words: "I think Gordon provides a sense of constancy and continuity while I bounce around breaking the rules, pushing back the boundaries of possibility and shooting off my mouth".

These three entrepreneurs were all very successful in their fields. In addition, each published detailed memoirs about their entrepreneurship that contain many of their lessons, advice and recollections about their decision making (Kiam, 1986; Branson, 2005; Roddick, 2000). These books give an excellent opportunity to research how good entrepreneurial decisions are made in practice. This is the purpose of this chapter. In the following, we will identify important instances of entrepreneurial decision making from the writings of these three entrepreneurs and classify them in terms of the three major decision styles discussed, i.e. rational choice, intuitive and procedural choice, as well as emotional cognition. In addition, decisions will be classified as errors and biases where appropriate. In these four sections, quotes relating to the decisions will be presented and interpreted in terms of the theory.

## **4.2. *The Rational Entrepreneur***

To what extent is rational choice part of good entrepreneurial choice in practice? Is it true as some suggest that rational decision making is impossible in practice? According to Elster (1989), as we have seen, rational choice is a function of three elements, clearly-specified objectives, relevant information about the decision environment and the determination of the best action to fulfil the objectives given that information. We will now discuss these three as they emerge from the stories of the three entrepreneurs.

### **4.2.1. Decision Objectives**

Firstly, rational choice demands clearly-defined and prioritized objectives. An optimal action can only be identified in response to a clearly stated goal. This was recognized by Kiam, who mentioned that the entrepreneur must know his priorities (Kiam, 1986, p. 44).

The trouble was I didn't know what I wanted to do.' (Kiam, 1986, p. 12)

Branson makes a similar point:

Of being a failure in everything I had and having to search for priorities if I am to get anywhere. (Branson, 2005, p. 46)

The point both entrepreneurs are making that is it impossible to choose the best alternative when one is confused about what the goal is. Kiam's problem was that he had no clear objective; Branson seems to have suffered from too many objectives without a single overriding one. Both seem to realize the need to identify a single goal to make it possible to identify that action which best satisfy it.

#### **4.2.2. Information Collecting**

Next, the collection and consideration of relevant information is one of the hallmarks of rational choice. This differentiates it from non-rational choice especially due to the high demands this makes on resources such as time and money. Entrepreneurs unsurprisingly do not tend to always engage in exhaustive search. However, detailed search and business research are advocated again and again in the three autobiographies. Kiam relies heavily on his own initiative to find information relating to his decisions. This is clearly important when faced with momentous decision, as the take over of Remington that made Kiam a household name. His decision was supported by a huge information gathering exercise:

There were twenty-six volumes of material and countless pieces of paper packed with facts and figures. These numbers told the story of Remington's entire domestic and overseas operations. It took me an hour and a half to arrange and spread the material out on the dining-room table [...] The day after this experience, I decided to conduct my own market research. I went out and bought the top of the line shaver of each of the leading brands [...] My research didn't end there. While investigating a potential takeover, an entrepreneur should take advantage of any avenue of information open to him. Many of the same retailers who carried the Benrus watch had also carried shavers. I called several of them and asked them to tell me anything they could about the shaver business.' (Kiam, 1986, p. 187-188)

Kiam believes that information is the key to any decision making. He conducted thorough search for information and business research before the taking over of the Remington Company. To avoid biases in the information and materials obtained from

the company, Kiam did further research himself by trying out the product himself and gathering information from the market by asking the retailers more about the shaver business. Kiam understands the need for more information especially when making a critical decision. Information allows him to compare and choose the optimum decision for himself under the given situation. This supports a key issue in rational choice: there is a trade off between how good a decision is and how much it costs to make it. When the costs of getting it wrong are high such as in Kiam's decision, it pays to invest more effort in information collection.

However, he also emphasises information collecting in more everyday decision making:

If you don't know why your company is doing something, find out. (Kiam, 1986, p. 46)

I was a voracious reader of business literature. You can find little gems by reading what others are trying to do, not just in your business, but in related industries.' (Kiam, 1986, p. 51)

I've never gone into an interview without having acquired as much intelligence on the company as I could (Kiam, 1986, p. 40).

Information is the key to building a relationship with an account. You should try to learn as much as you can about the person you're dealing with. Before I would call on major buyers, I would visit their individual stores to check their rate of sale [...] Any information I could glean while with a client was filed away for future use. I'd write it all down on my call sheet after the meeting and transfer it to a notebook later that evening. This requires intense listening [...] All the data I had picked up over the months was brought into play to create an empathy between us (Kiam, 1986, p. 99-100).

I always felt [time between appointments] should be spent researching stores in the surrounding area. I'd walk into a shop and see how our merchandise was being displayed [...] Then I'd strike up a conversation with the sales staff, the people who were in the trenches, and find out how the public was reacting to our products [...] This research served at least three purposes. First, it gave me a dispassionate first-hand assessment of the strengths and weaknesses of any product I was representing. Second, I could keep tabs on the competition [...] Third, it gave me the semblance of a personal relationship with the people who were selling my merchandise. (Kiam, 1986, p. 111)

I was fascinated by the history and customs of the different people who did business with me. I think learning something about their tradition made me a better salesman. When I visited China for the jewellery business in the mid-1970s, I read everything I could on the Great Wall and the ancient dynasties that had ruled over China. I stood at the Wall and I visited temples and communes. I drenched myself in the country (Kiam, 1986, p.117, p. 145)

Leverage buyouts were not commonplace at the time. I didn't know very much about them, but I did know they were debt-orientated. After talking to some

knowledgeable friends and associates, I decided that it was probably the best route for me.' (Kiam, 1986, p. 190)

Kiam also strongly advocates the collection and use of information in negotiation:

'What was the key to this and any other successful negotiation? Information! [...] A negotiator should observe everything. You must be part Sherlock Holmes, part Sigmund Freud [...] Information is a negotiator's greatest weapon.' (Kiam, 1986, p. 155, 163, 166)

In addition, he highlights the need to be self-reliant to assure the quality of information gathered:

You can have assistance, but you can't let anyone do this research for you. I got smacked in the teeth with this lesson when I bought the Benrus watch company. (Kiam, 1986, p. 197).

Kiam therefore generally recognizes the importance of search, information and knowledge in important and everyday decision making. In addition, Kiam understands the biases that information collecting could have: First, he knows he has limited storing capabilities and the need to record information and take notes for future reference. He also knows relying on others for information might create a bias. He also knows that some pieces of information are easier to get than others, leading to another sort of bias. His deliberate and considered search has the flavour of rationality.

Information gathering also plays an important role for Anita Roddick in the crucial founding episode of the Body Shop:

I already had an idea of what kind of shop I would like. Skincare would be so easy. You could find out everything by reading, researching and conversation. [...] I was trained as a history teacher so I knew how to conduct research, where to look, how to dig deeper and deeper. I read every pharmacopoeia book from the turn of the century onwards [...] I would give that advice to anyone: set your sights and skills on an idea, do the research, see what the competition is doing and then see how you can be different. Focus on what the competition doesn't have and promote that [...] Skill or money isn't the answer for the entrepreneur, it is knowledge: from books, observing or asking (Roddick 2000, p. 36-38, 40)

Here, we can see that Roddick is someone who emphasizes research and information collection before making decisions. She also clearly knew what her objectives were and what she had in mind. As Herbert Simon has said, search for information requires

intelligence. Roddick's past experience and learning as a teacher helped her in conducting research selectively to minimize the given resources. To Roddick, market research and information of competitors is important and based on these information, she had differentiated her business; focusing on what the competitors' do not have. Roddick believes that through knowledge, observation or asking, one can be a successful entrepreneur.

Roddick also realizes that entrepreneurial time pressures can be the enemy of information gathering and therefore rational choice:

One of the great challenges for entrepreneurs is to sit down, reflect and wait to collect information. We all suffer from hurry sickness. (Roddick 2000, p. 41)

This is similar to Kiam's realization that if one decided before all the information is in, one might be biased towards those pieces of information that emerge slowly and only after careful search.

As for Branson, research was done more informally. Unlike Kiam, Branson did not do methodical research before making his decisions. Branson uses different methods such as observation and asking:

We always asked the local teenagers where the best place for a record shop would be (Branson, 2005, p. 109).

Like Kiam's case, this informally gathered information is collected and stored carefully by Branson for future use:

My most essential possession is a standard-sized school notebook [...] I carry this everywhere and write down all the comments that are made to me by Virgin staff and anyone else I meet. I make notes of all telephone conversations and all meetings [...] Whenever I am on a flight or a train or in a record store, I walk around and ask the people I meet for their ideas on how to improve the service. I write down and, when I get home, I look through what I've written. If there's a good idea, I pick up the phone and implement it [...] I don't mind where the ideas come from as long as they make a difference. I also insist that we continually ask our staff for any suggestions they might have, and I try my hand at their jobs. (Branson, 2005, p. 502-503)

The results of his research can outweigh Branson's entrepreneurial intuition:

*My instinct* for continued involvement with Virgin Music and taking Thorn EMI shares *was tempered* by the need for financial security. John Thornton, who was advocating that I should take the shares, did not know the whole picture; nor did Peter Gabriel, who was arguing that I shouldn't do it at all. (Branson, 2005, p. 464, italics added)

Here, Branson seems to recognize that although intuition is often a useful tool as we have seen, sometimes careful deliberation can avoid biases and errors that all non-rational decisions are prone to. Again, the decision concerned was a momentous one with a lot at stake. It was Branson's decision to give up Virgin Music, one of his favourite projects. Rationality is used when the costs of rationality are outweighed by the benefit of getting it right.

#### **4.2.3. Decision Making**

But how is the best alternative to be identified once the information is collected? This aspect of deciding rationally is deliberation, i.e. explicitly assessing the pros and cons of choice alternatives based on the information. This has two aspects: analyzing the information to identify the best action, and then to implement that action.

Firstly, we can see that all three entrepreneurs see the need for analysis and deliberation. Kiam reports:

I took over Remington in the midst of this controversy. *I checked out the numbers* and discovered that it would be too costly to run the device through any sort of extensive medical testing. It would also be too time-consuming. *With these factors in mind, I decided* to drop the advertising completely. (Kiam, 1986, p. 173, italics added)

*I stepped back and analysed the situation.* Had I lost sight of any red flag he might have been waving? (Kiam, 1986, p. 166, italics added)

Just before graduating from the Harvard Business School in 1951, *I made an assessment* of myself in order to determine what sort of company I should join. (Kiam, 1986, p. 39, italics added).

Taking out a notebook, I drew a line down the middle of a page. On one side I listed everything I thought a company would find attractive (Kiam, 1986, p. 35).

Kiam uses his skills in analyzing the facts of every aspect of his career; from determining the company and job he should join to the management of his own company. He did not rush into any decisions without first studying the cost and benefit of the actions. Similarly, Branson recalls:

But I kept worrying. I find it impossible to stop my brain from *churning through all the ideas and possibilities* facing me at any given moment.' (Branson, 2005, p. 126, italics added)

Branson also analyzes the different alternatives facing him at any given situation before making a decision. He realizes the part information plays to minimize the risks of wrong decision.

Sometimes, formal methods, rather than simply thinking should be used for rational deliberation. Kiam advocates the use of some of these:

Guarding against that possibility made me doubly meticulous in my *planning*. I documented my *strategy*, knowing that if we fumbled the ball, I would need it. My *carefully drawn-up plan* would give powerful evidence that I hadn't gone into this programme half-cock.' (Kiam, 1986, p. 61, italics added)

Now that you're fully aware of the gamble attached to your venture, you can assess whether or not you want to go through with it by *calculating your Risk-Reward Ratio*. Will the remuneration be worth the time, energy, and money invested? (Kiam, 1986, p. 141, italics added)

If you're going to be an entrepreneur, in a corporation or on your own, you should get a background in accounting [...] In so many ways, *analysis of a profit and loss statement or cash flow* can be useful [...] My ability to read company statements helped me in my first office position. It gave me an edge over my less informed rivals (Kiam, 1986, p. 34, italics added).

Kiam realizes the role of proper analysis and tools to assist in decision making when there is a lot of complex information and the human brain may be limited and unable to work out the best alternative. Technical methods can help here, as Kiam recounted.

Often, good decision making involves not only a response to situations, but anticipation of future conditions. Roddick realizes this in the following passages:



What we didn't anticipate was how incredibly fast the competition would come in. [...]. What we didn't have was a strategy to cope with competition that was fast and furious. [...] We never even thought like that.' (Roddick, 2000, p. 147)

Gordon said: 'Nobody is looking ahead for three years. We are not looking at the possibilities. If we don't, we won't be here in three to five years.' And he was probably right. (Roddick 2000, p. 250)

Roddick understands the need to be able to anticipate the future based on existing information. The inability to predict critical information leads to disadvantage. This differentiates rational choice from bounded rationality and intuition, where procedures and past experience are used, and there is no thought about new, unexpected or unpredictable events in the future that might make the routines not very useful.

Secondly, rational choice means determining as well as implementing the best course of action identified by considering objectives and information. This may go wrong when the decision maker procrastinates under time pressure, and when no alternative seems attractive. Kiam show awareness of the need to overcome both problems in the realm of human resource decisions:

Developing a *quick, positive response* to adversity had saved an important promotion. Being able to think on my feet and assuming responsibility for what many thought a bold decision also helped me score points with my superiors. (Kiam, 1986, p. 27, italics added)

*You're going to have to make a decision* and implement it. I was trying to avoid the issue that was hanging over both of us: eventually, I would have to let him go. (Kiam, 1986, p. 25, italics added)

In grave situations – in any situation, really – the only thing *worse than a wrong decision is no decision*. (Kiam, 1986, p. 30)

An entrepreneur must be *decisive* and must always be prepared to grasp opportunity. *Procrastination is opportunity's natural assassin*. (Kiam, 1986, p. 186, italics added)

We can see that Kiam knows that rationality is not simply gathering and processing information to identify the best option. In the end, these are only tools to show the best decision to be implemented, and will fail if the decision maker does not do so. Kiam is aware of this need.

Roddick also actively implements hard decisions based on her analysis even when this means accepting you were wrong and have to make changes:

When you make a mistake, you have to face up to the fact and take immediate steps to change course [...] What saved us was our ability to recognize that we had done everything wrong. It was the wrong restaurant in the wrong town. [...] It was Gordon's suggestions to change tack [...].’ (Roddick, 2000, p. 35)

The main lesson for entrepreneurs as Roddick mentioned was the ability to change soon enough to adapt to the new situation. According to her, once a wrong decision has been recognized, corrective action must be taken. Here, she has demonstrated the understanding that the environment changes over time as well as the information. Businesses need to adapt quickly to changes and update the information they have to survive. Again, past information may not always be applicable when faced with recurring problems due to increased complexity of the environment.

We have seen that all three entrepreneurs rely on some aspects of rational decision making, depending on their personalities and the situation. First, we have seen that rationality depends on the importance of the choice: momentous decisions are more likely to be more researched for information and better analyzed using formal methods because the benefits justify the costs of doing so. How rational the decision making is also depends on the personalities of the individuals. Kiam in particular uses systematic information collection and analysis, perhaps because of his university and business school education. Roddick was seen to be forward looking, planning her venture in advance using research skills from her teacher training. Even Branson, who does not have as much formal education as the other two was seen to collect information and record it carefully.

### **4.3. *The Intuitive and Procedural Entrepreneur***

As we have seen earlier, bounded rationality and intuition are part of the same type of decision making. This decision making involves experience and learning, using this to develop intuitive judgment, and finally application through procedures and routines. We will look for these two styles in the stories of the three entrepreneurs in this section.

#### 4.3.1. Learning from Experience

Firstly, there is a lot of evidence in the autobiographies of the three entrepreneurs referring to the use of their previous experience and learning from it. For example, Victor Kiam reports:

thirty-five years of participating in the ultimate contest have given me a good idea of what an entrepreneur's profile should resemble. (Kiam, 1986, p. 14)

Benrus recovered from the setback, but the *experience taught me* never to buy a company without first examining every bit of it. (Kiam, 1986, p. 198, italics added)

Let me simply say now that I borrowed heavily from my experience with Lever Brothers and Playtex. (Kiam, 1986, p. 206)

My experience convinces me that if you can make the name descriptive enough, you can sell the most compelling feature of the product through the name. At times, it can help the consumer visualize the product (Kiam, 1986, p. 222)

I had seen the same thing happen when I was selling cosmetics for Lever Brothers in 1951. I found that if I could get my jars piled up on the store counter, so that there wasn't any way the customer could miss seeing them, we were going to sell more.' (Kiam, 1986, p. 223)

Here Kiam uses his experience of past situations to address current ones. Although it seems sensible to learn from experience, we have seen it is not always rational because extrapolating from past experience to the future could lead to systematic error and biases. This is because the future is not simply a repetition of the past but can create completely new situations. Anticipation of change is needed to avoid errors.

#### 4.3.2. From Experience to Intuition

Experience is used for decision making in various ways. As we have seen, learning and experience are the basis of intuition, i.e. subconscious matching of situations to learned and stored patterns. Roddick describes the virtues of intuition for the entrepreneur:

Entrepreneurs act *instinctively* on what they see, think and feel. And remember there is always *truth* in reactions. (Roddick, 2000, p. 40, italics original)

Roddick here shares Gladwell's (2005) controversial view that intuition and instincts can be more correct than careful analysis.

One aspect of intuition is the rapid cognition that delivers judgments quickly based on subconscious processes. In passages that could also have been in Gladwell's (2005) *Blink*, Branson explains:

I normally make up my mind about whether I can trust somebody within sixty seconds of meeting them.' (Branson, 2005, p. 160, see also p. 168)

In the same way that I tend to make up my mind about people within thirty seconds of meeting them, I also make up my mind about whether a business proposal excites me within about thirty seconds of looking at it. I rely far more on gut instinct than researching huge amounts of statistics. This might be because, due to my dyslexia, I distrust numbers, which I feel can be twisted to prove anything. The idea of operating a Virgin airline grabbed my imagination, but I had to work out in my own mind what the potential risks were.' (Branson, 2005, p. 216)

Perhaps my early problems with dyslexia made me more intuitive: when someone sends me a written proposal, rather than dwelling on detailed facts and figures I find that my imagination grasps and expands on what I read. (Branson, 2005, p. 31)

Branson, knowing that he is bounded by his learning disability, relies hugely on his instincts and business judgment, using his imagination in decision making. He had always faced difficulties understanding and interpreting information due to his dyslexia. Branson uses pattern recognition or thin slicing when he encounters a new situation, meeting someone for the first time or when he has to make sense of something quickly. He seems to be aware and proud of the fact that he can make these judgments quickly, mentioning his 30-60 second judgement often.

Entrepreneurs used their intuition on what they perceived. Just as Simon (1983) said, decision making based on experience is often the right decision if they have good intuition or good judgment.

#### **4.3.3. From Intuition to Routines**

Often, intuition becomes formalized and consciously developed into procedures for action. Victor Kiam talks a lot about using his experience through decision making procedures and routines. In other words, he uses the knowledge he has gained by

making it into procedures, rules of thumb and routines for entrepreneurial decision making. He refers to these as habits, principles, practice, philosophy, concepts:

I made it a *habit*, while at Lever Brothers and Playtex, to look at any decisions facing the company and then try to figure out what course of action I would recommend if the ultimate decision were mine. It's a *habit you should cultivate* and is a major step towards thinking entrepreneurially (Kiam, 1986, p. 24, italics added).

For the next seventeen years I used the *entrepreneurial skills* outlined in this book to move up the corporate ladder (Kiam, 1986, p. 12, italics added)

What is important to note here is the fact that I am not a genius. [...] I believe that any success I've had can be attributed to my adherence to the *entrepreneurial principles* I developed early in my career [...] The *principles* applied to the Remington situation were originally picked up and used by me in my first managerial position at Lever Brothers. (Kiam, 1986, p. 14, p. 257, italics added)

It's a *practice* I've continued and I haven't had an idea stolen from me since. (Kiam, 1986, p. 55, italics added)

I've carried this *philosophy* over to every division and business with which I've been involved. (Kiam, 1986, p. 85, italics added)

Many of the marketing ideas I've used at Remington were variations of *concepts* I've picked up or developed at other companies. (Kiam, 1986, p. 222, italics added)

I have notebooks filled with marketing ideas going back to the early fifties. I review these notes a couple of times a year and always come away with *something I can apply to the businesses I'm involved with now.*' (Kiam, 1986, p. 222, italics added)

I've tried to draw up some guidelines for successful selling in this chapter (Kiam, 1986, p. 113).

The quotes clearly show that Kiam applies the habits, skills, principles, practice, philosophy, concepts and guidelines developed through his experience over the years from his previous career into routines to his daily decision making. The number of times he mentions this and the different terms he uses to describe procedures shows that these are an important part of his entrepreneurial decision making.

We have already mentioned that using past experience for new situations can be dangerous. This is also true for procedures based on such experience. Branson is aware of this and warns about becoming too fixed in one's decision making:

Even though I'm often asked to define my 'business philosophy', I generally won't do so because I don't believe it can be taught as it were a recipe. There aren't ingredients and techniques that will guarantee success. Parameters exist that, if followed, will ensure a business can continue, but you cannot clearly define our business success and then bottle it as it were a perfume [...] you certainly can't guarantee it just by following someone else's formula. (Branson, 2005, p. 490)

Throughout my business life I have always tried to keep on top of costs and protect the downside risk as much as possible [...] But, likewise, I also know that sometimes it is essential to break these rules and spend lavishly [...] I decided to break all the rules of the record industry. (Branson, 2005, p. 376)

What does Branson prefer when fixed rules fail? The alternatives are either rational decisions that consider all information, or more adaptable intuition. It is more likely by his other statements that Branson will allow his intuition overrule procedures.

#### **4.4. *The Emotional Entrepreneur***

We have seen that emotions can play important roles in decision making generally. In summary, these roles are to provide a motivation for action rather than doing nothing, to avoid decision making procrastination, to provide a stopping rule for search activities, to help prioritize among multiple objectives, to focus perception and attention towards particular stimuli and memories. Is there a role for emotions in good entrepreneurial choice? The autobiographies of the three successful entrepreneurs show a strong reliance on emotions in their choices in all these ways. We will now discuss their experience of emotional decision making in terms of these roles.

##### **4.4.1. Motivation**

Probably the most important role of emotions is to provide the drive that will make the decision maker choose and act. This aspect of decision making, in terms of fun, enjoyment and satisfaction their businesses provide them, is clear in the experiences of all three entrepreneurs. Kiam, for instance, intimates:

[...] you will have more fun and excitement than you can imagine. (Kiam, 1986, p. 14)

I got the loathsome expense reports out of the way before turning my attention to those things I enjoyed doing. (Kiam, 1986, p. 36)

Here, Kiam's sense of fun and enjoyment is having an influence on how he is tackling his work.

Branson's decisions are driven very much by emotions such as fun, challenge and adventure. These have made him behave entrepreneurially and to go out and find opportunities:

Above all, you want to create something you are proud of. That has always been my philosophy of business. I can honestly say that I have never gone into any business purely to make money. If that is the sole motive then I believe you are better off not doing it. A business has to be involving; *it has to be fun, and it has to exercise your creative instincts.* (Branson, 2005, p. 57-58, italics added)

We never had any money; we were incredibly busy; but we were a close-knit team. *We worked together because it was fun,* because we felt that what we were doing was important, *and because we had great lives together.* (Branson, 2005, p. 64, italics added)

I felt that I knew as much as I wanted to about negotiating record contracts. *I needed another challenge [...]* My interest in life comes from setting myself huge, apparently unachievable, challenges and trying to rise above them. (Branson, 2005, p. 210, 219, italics added)

If I were to think about it more carefully, I would say that I love to experience as much as I can of life. The physical adventures I have been involved in have added a special dimension to my life that has reinforced the pleasure I take in my business.' (Branson, 2005, p. 238)

Fantasising about the future is one of my favourite pastimes, and I told the meeting that I had all sorts of other plans for *Student*: I felt that students were given a raw deal by banks, and I wanted to set up a cheap student bank; I wanted to set up a string of great nightclubs and hotels where students could stay; perhaps even offer them good travel, like student trains or even, who knows, a student airline. (Branson, 2005, p. 79)

Fun is at the core of the way I like to do business and it has been key to everything I have done at the outset. More than any other element, fun is the secret of Virgin's success. I am aware that the idea of business as being fun and creative goes right against the grain of convention, and it's certainly not how they teach it at some of those business schools, where business means hard grind. (Branson, 2005, p. 489-490)

The number of times Branson mentions fun and the influence he admits this has on his business decisions is very different to what one would expect from successful business people.

Branson's and Kiam's fun and enjoyment are their own and very personal. In Branson, this is reflected in his private life where he takes on highly risky adventures such as breaking ballooning records. Roddick, who makes similar statements, seems more interested in the satisfaction she gets from social change and causes she believes in. These are powerful emotions for Roddick:

It makes me smile that the Ivy League is so keen to 'learn' how to be an entrepreneur, because I'm not at all convinced it is a subject you can teach. How do you teach *obsession*, because more often than not it's obsession that drives an entrepreneur's vision? How do you learn to be an outsider, if you are not one already? Why would you march to a different drumbeat if you are instinctively part of the crowd? [...] qualities you need to be a natural entrepreneur include a combination [of] the vision of something new and a *belief in it that's so strong* that it becomes a reality. Vision-making is also *obsessive*, a type of *psychopathology*. It is inherently *crazy*. If you see something new, your vision usually isn't shared by others. [...] A touch of *craziness*. There is a fine line between an entrepreneur and a *crazy* person. *Crazy* people see and feel things that others don't. An entrepreneur's dream is often a kind of *madness* and it is almost as isolating. (Roddick, 2000, p. 39-40)

We can see that her motivation and drive is not so much innocent fun but an obsessive craving to achieve her goals. She realizes it is therefore difficult to learn to be entrepreneurial. One cannot learn to be 'pathological'.

Emotions can help highlight or provide entrepreneurs with specific objectives. Roddick's obsessions meant that the *Body Shop* was founded on the principle of ethical business she cares so much about:

So we had no organizational chart, no sophisticated procedures or marketing, no one-year, five-year or ten-year plan. In fact we didn't have any of those things for the next 17 years. What we did have was management by *our common values*, but we were also in some ways falling apart at the seams. (Roddick, 2000, p. 39)



These particular ethical values are an example of a general innovating outlook among entrepreneurs:

Most of the entrepreneurs I've met have had an innate desire for social change. [...] that gives entrepreneurs enormous freedom to experiment with what they want, but it also makes them dysfunctional in hierarchies and inert structures. (Roddick, 2000, p. 40, see also Branson 2005, p. 314)

Branson obviously also shares some of the social drives that Roddick has in addition to his individual need for fun and adventure.

#### **4.4.2. Search**

We have seen how a rational decision maker needs a stopping rule in order to collect the optimal amount of information. We have also seen how choosing a stopping rule needs more rational thought, leading to the same problem over and over again. As Simon (1983) said, emotions are an alternative stopping rule that does not need rational thinking. Kiam, for instance, lets his emotions guide the amount of information collected for particular choices:

Your confidence in a product or venture must be strong. If your feelings are lukewarm, you need more information before deciding the extent of your involvement. (Kiam, 1986, p. 18)

Kiam is aware of the importance emotions play in determining the optimal amount of information to be collected before making a decision. Emotions, he says, can tell you when you have collected too little. This conforms to Simon's (1983) view explained earlier.

Branson thinks that his own entrepreneurial quest for information is a result of emotional factors:

'Whenever Virgin has money I always renew my search for new opportunities. I am continually trying to broaden the Group so we are not dependent on a narrow source of income, but I suspect *this is more down to inquisitiveness and restlessness than sound financial sense*. (Branson, 2005, p. 203, italics added)

Inquisitiveness in general is a good example of what it means to have information collection determined by one's emotions. It shows that information collection is not purely a rational process.

This section has shown that emotions are particularly important in the decisions that Branson and Roddick make, they provided them with objectives for their companies, and also with the drive to go out and behave entrepreneurially. This gives emotions a crucial role in entrepreneurial choice as it influences every part of decision making.

#### **4.5. The Entrepreneur and Decision-Making Biases**

Baron (1998) suggests that due to the nature of the entrepreneurial decision environment, entrepreneurs may be particularly prone to decision-making errors and biases, such as the ones outlined earlier. We can verify this by looking for the biases in the stories the three entrepreneurs tell.

##### **4.5.1. Emotions and Bias**

We have seen in the last section that emotions can be important for entrepreneurs. Even Kiam, with his emphasis on rational decisions, says that fun is an important part of being an entrepreneur. However, Kiam also notes the dangers of too much emotion in decision making. Here he explains that it can be important to control emotions in situations of stress. When emotions arise and are uncontrolled, rational choice could not be reached:

I had to move fast to avoid what could have been a disaster. I called a meeting of my executives and discussed possible responses. The Victor Kiam who held that meeting was *calm, rational* and honest [...] We all knew we had a problem, a critical one [...] Was I worried? Right down to my socks, baby. But no one in the room knew it [...] Since I wasn't reaching for the hemlock, neither was anyone else. The combination of tension and a *disciplined calm* gave us a necessary clarity, enabling us to deal with the problems in logical order. (Kiam, 1986, p. 29-30. italics added)

The stressful situations, the time pressure, risk, change and complexity entrepreneurs face, as described in chapter 3, can create powerful emotions and moods. Kiam must be used to these but has learned to control these to ensure his decisions remain as good as possible.

#### 4.5.2. Overconfidence and Groupthink

Entrepreneurs are particularly affected by the overconfidence bias we described earlier. Kiam (1986) discusses personal confidence at length as one of the key ingredients to good entrepreneurship:

I had so much *faith* in the enterprise, I had mortgaged 50% of my apartment and had used that capital to build up the business further (Kiam, 1986, p. 133, italics added)

*Believing strongly* in my idea, I felt it had to be implemented for the welfare of our company. (Kiam, 1986, p. 50, italics added)

But I am *confident* that I can pick the best people to make those shavers. *I believe I'm the guy who can* hold the venture together and make it soar. (Kiam, 1986, p. 17, italics added)

Kiam shows here that confidence is important. But in rational choice, the assessment of one's own capabilities and the characteristics of business situations should be realistic. Confidence and belief is not a merit as such, but must be an accurate judgment. However, the feeling one gets when reading Kiam is that confidence is an end in itself:

What should you do if you don't have confidence? Find some. Apply yourself seriously when drawing up the balance sheet [...] After listing your liabilities, work on moving them into the assets column. Lack of confidence is not a disease; it's a symptom. Those self perceived negatives are robbing you off a healthy ego [...] All I am asking you to do is to bet on yourself. (Kiam, 1986, p. 17)

Here, Kiam talks to his readers. He gives advice to people who want to be successful entrepreneurs like him but we can see evidence of bias; what Kiam said about confidence is not related to his readers' ability. He seems to think that people should strive to achieve something even when it is beyond their ability.

Branson also highlights the role of confidence in himself and the situation:

One of the things that I am always trying to do with Virgin is make people reinvent themselves. I firmly believe that *anything is possible*. (Branson, 2005, p. 292, italics added)

Previously, I had always felt *confident* about any decision we made, but now Virgin was a publicly quoted company, I began to *lose faith* in myself. I felt uneasy about making the rapid decisions I have always made, and wondered whether every decision should be formally ratified and minuted at a board meeting. (Branson, 2005, p. 263, italics added)

All in all, I had *pushed away the negative reasons* and decided to go for it. (Branson, 2005, p. 256, italics added)

As usual, when people warn me against doing something once my mind is made up, I grow increasingly determined to try it. (Branson, 2005, p. 495)

I think they realized I had done all the market research I felt I needed to do and had made up my mind. They were right: I had worked myself up into a state about it. 'You're a *megalomaniac*, Richard,' Simon said. (Branson, 2005, p. 218, italics added)

We have seen that as a result of overconfidence, entrepreneurs may be suffering from groupthink because their choice situations match many of the necessary conditions: a feeling of superiority, charismatic leadership, time pressure and importance of the decision. Branson's description of collective decision making within a young and highly motivated Virgin leadership resembles these conditions to some extent:

Simon and I were both 33 years old, as were Trevor and Ken. Don was a little older; Robert a little younger. *We felt that we could take on anybody*, and we now set our minds to take the Virgin Group public. We were going from the rock market to the stock market. (Branson, 2005, p. 237, italics added)

Here, a group of young entrepreneurs who are friends feel that they are living through special times and circumstances may easily get carried away and make bad decisions.

Roddick also recounts poor group decision making resulting from overconfidence:

We made a whole slew of major mistakes, partly due to our *arrogance* and partly due to huge *naïveté*. We did not anticipate the problems because we didn't think ahead. We were still thinking like entrepreneurs, pushing an idea and seeing how far it would go. (Roddick, 2000, p. 145, italics added)

Arrogance and inability to understand circumstances are typical for groupthink scenarios.

### 4.5.3. Wishful Thinking

We saw earlier that often, excessive motivations can hamper decision making by biasing judgement and information gathering. Kiam, for instance, recalls that

My hunger to win the game allowed me to *transform every negative into a positive*.  
(Kiam, 1986, p. 21, italics added)

Kiam's personal need for success actively changes his perception of the facts in this quote. Things which could be problems now looked good to him to provide him with a reason to take a decision which is not necessarily sensible but satisfies his ambitions.

Similar experiences were made by Anita Roddick:

But then we were *seduced* into believing what the press was saying about us, *seduced* into thinking that this was the way it was always going to be. (Roddick, 2000, p. 145)

Here, what the entrepreneurs want to achieve and want to be true has affected their perception and judgement of the situation. The success of the Body Shop clouded Roddick's judgement.

In this section, we have seen that entrepreneurs do have a tendency to make errors and biases in their decisions, as Baron (1998) suggests. The most important issues appear to affect information collection and assessment. What information they collect can be biased in terms of what they believe or wish for, and that how they judge it can be biased by their own overconfidence. These two errors seem to typically entrepreneurial as we are dealing here with individuals with strong personalities and self-belief and as well as little time for details, as the traits theories of entrepreneurship have shown (chapter 3). We can see therefore how these theories base on traits and personalities link with the cognitive theories as the thinking styles depend on some of the inherent characteristics.

## **4.6. Assessment**

How the three entrepreneurs describe their choices can tell us a lot about their own personal decision styles. We can try to give an objective estimation of this question by counting how often the three entrepreneurs talk about the different decision styles. Table 4 is a breakdown of the quotes we looked at in terms of the different decision styles and errors. For every style, we have totalled the number of quotes attributed to it for every entrepreneur. Two things need to be said about this method. First, in places, particular quotes were not reproduced from the three autobiographies because they repeat what other quotes already say. In these cases, a quote may have a page reference with the note “see also p. x” indicating another similar quote exists. These unquoted passages do need to be counted as they provide more evidence of a decision style being used by the entrepreneur. We have added them to the count. Secondly, some quotes are negative in the sense that they report an entrepreneur’s warning against using a particular decision style. This goes for Branson’s warning against routines and Kiam’s discussion of suppressing emotions. We cannot add them to the count as positive numbers as this would mean evidence for the style. We have therefore decided to indicate them as negative numbers. The difference in the total number of quotes per entrepreneur has to do with the lengths of the books and also with how often they discussed decision making situations in them. The number of quotes is an indication only. There might be a problem when entrepreneurs are biased in what decisions they remember and how they report them. It is also not always clear how to categorize a particular quote. But the proportions of quotes for each paint a picture of the three as decision makers. However, the table is a useful measurement of which entrepreneur uses which style. It also shows how important the different styles are for entrepreneurial choice. For Branson, the largest share of quotes falls under emotions, highlighting his sense of fun and challenge fuelling his ambitions. He also has many quotes about using intuition and stories of his self-confidence. We can see him as an entrepreneur with an informal decision making style, preferring instincts and emotion to systematic information collection and deliberation. Kiam is a very different type of entrepreneur. Perhaps because of his background, half of his quotes relate to rationality and especially information collection. He also talks a lot about experience and turning this into business principles and routines. Roddick’s shorter book has less quotes about her decisions, but it is clear from these that she uses her

emotions to guide her business objectives, but she will also collect much information to find the best way of pursuing these.

The quotes and their classification also tell us something about how good entrepreneurial decisions are made in general. The three personalities are all successful over many years, so the way they choose must be effective. We have just seen that the three are actually quite different in terms of decision style. We can also see that they also use different styles for different decisions. The lesson of this is that to be a good entrepreneur, all the styles should be used under different circumstances. Which are the circumstances when each should be used?

		Richard Branson	Victor Kiam	Anita Roddick
Rationality	Decision Objectives	1	1	0
	Information Collecting	3	13	3
	Decision Making	1	11	3
	Subtotal	5	25	6
Intuition / Bounded Rationality	Experience	0	5	0
	Intuition	4	0	1
	Routines	(-)2	9	0
	Subtotal	6	14	1
Emotions	Motivation	8	2	2
	Search	1	1	0
	Subtotal	9	3	2
Biases	Emotions	0	(-)1	0
	Overconfidence	6	4	1
	Wishful Thinking	0	1	1
	Subtotal	6	6	2
Total		26	48	11

**Table 4: Classification of Quotes for the Entrepreneurs in terms of decision styles**

Firstly, rationality comes into decision making especially when important decisions are to be taken. Then, the high costs of being rational are worth the benefit of the right decision. Rationality is important to force the decision maker to decide on an action rather than to wait and see. Rational choice plays a major role because it calls for analysis of information available under the circumstance to decide on the best course of action. For entrepreneurs, information is crucial to determine whether an opportunity of a potential business is viable and whether it is worthwhile to commit resources to it. The rational choice taken involves specified objectives, information gathering or research and the deliberation or reasoning of the situation. As we have seen, all three, but especially Kiam and Roddick have conducted thorough research for information in decision making.

Intuition is often important when the entrepreneur forms a judgment when there is not much information to collect and when the situation is risky and complex. Branson relies a lot on his gut feelings. The use of heuristics and experience could also be helpful in recurring situations where the same actions may be applicable. This decision making style follows simple procedures, concepts, principles and lessons learned. This helps to minimize the costs of information search considering the cost and benefit analysis when it is not worthwhile to think too meticulously when faced with recurrent situations or problems. All three entrepreneurs use their experience and learning from past success or failure before deciding entering into a business venture. Kiam especially talked a lot about his principles that have helped him make decisions.

Emotions also assist these entrepreneurs in their decisions. Emotions give initiative, drive and guide their attention to focus on important issues. For example, Kiam was seen as a workaholic who looked for satisfaction from success and this desire to succeed drove his actions. All three entrepreneurs were driven by a sense of fun and challenge. As we have mentioned earlier, emotions can affect attention, perception, judgment and memories. Among the three entrepreneurs, Branson used more of his emotions in deciding whether to enter a new market or business. Also, emotions can give them objectives and priorities their business should follow. For Roddick, this is clear in the ethical focus of her company.



We can conclude that a mixture of all styles depending on circumstances is needed for good entrepreneurial decision. This is realized by Kiam, who emphasizes all three when trying to explain his success:

I wasn't a child of destiny and I'm not exceptionally talented. I reached this position by *working hard*, grabbing opportunity, *learning from my mistakes* and allowing my *imagination* the freedom to dance. (Kiam, 1986, p. 263, italics added)

I've always said that success was 70% hard work, 20% talent and ingenuity, and 10% luck. (Kiam, 1986, p. 22)

Kiam here mentions all three components of good entrepreneurial choice: hard work to gather and analyse information, the use of routines based on his experience, and the way pleasure from letting his imagination run free can help motivate him

## 5. Conclusion

In this dissertation, we have argued that good entrepreneurship is important to economic progress and efficiency. We need to know more about how good entrepreneurial decisions are made to promote entrepreneurship in the future. We have argued that one way to understand this issue is to examine the cases of successful entrepreneurs. We can match their recollections of decisions they have made to theoretical principles of choice. In theory, rational decisions are made by collecting and analyzing all available information and to select the best action matching one's objective. In practice, complexity, limited information, and brain power can prevent people from doing this. Instead, people may rely on procedures, their intuitions and emotions to make simpler and cheaper decisions which may however generate errors too.

Entrepreneurs may be particularly prone to non-rational decision making because of the nature of their decision environment. Entrepreneurial choice is characterized by lack of information, change, time pressure and huge risks. We examined how three successful entrepreneurs have responded to this environment and how they made their decisions. What have we learned from this exercise?

### 5.1. *A Mix of Decision Making Styles*

Firstly, between them, and individually, our three successful entrepreneurs are seen to rely on all the theoretical decision styles to different degrees. All three made some use of rational decision making. Kiam especially is a compulsive gatherer of information which he records carefully and uses when necessary. Roddick was seen to do detailed research for her new venture based on skills she learned when doing her teacher training. Branson relies on note-taking in meetings and conversations. The entrepreneurs seem to be aware of the need of clear objectives, the need to take and implement decisions.

Rational decision making was especially used for unique or important decisions by the three entrepreneurs. In contrast, everyday or recurring decisions were often made using routines and procedures based on their experience. Kiam is a great advocate of business principles, philosophies and concepts. He said that these are partly the basis of his success. He often applies the lessons from all business problems to new situations. This is less obvious in Roddick and Branson. Roddick warned against being too dependent on your experience, she says you cannot learn to be entrepreneurial. Branson makes much of his snap judgments and Roddick emphasizes the need for instincts to make good decisions.

Finally, we have seen that emotions play an important part in the decisions of all three entrepreneurs. For them, a sense of fun, adventure, purpose and challenge provided them with the motivation to seek out opportunities and take risks. Kiam often describes his business decisions in terms of fun and enjoyment. For Roddick, ethical principles and a desire for a social change has provided her with aims for her venture. Richard Branson was seen to be mainly motivated by need to be challenged and to have adventures. Without these emotions, these entrepreneurs might have never chosen to start their many ventures.

## **5.2. *Decision Making Styles and the Individual***

We have seen that all three entrepreneurs use all of the theoretical decision-making styles. However, not all three use the three styles equally often. They are different in the way they make decisions. Out of the three, Kiam seems the most rational. More than half of his quotes can be classified under this heading, compared with a fifth for Branson. Half of these are for information collecting and decision making each. The reason might be that Kiam has a background of university education in some of the world's top institutions (Yale and Harvard Business School), where he learned skills and tools for decision making. Roddick's quotes are more or less evenly spread over the different styles, but half also come under rationality, and a third under emotions and errors. Her background can explain this a little. On one hand Roddick hails from a family of Italian immigrants where the expression of emotion is encouraged.

My mother taught me how important personalities are in business. She made me realize that you can't be a nondescript person or you will have a nondescript product. 'Be special', she would always say. 'Be anything but mediocre'.

Branson has three times more quotes related to intuition and emotions than the other two entrepreneurs put together. More than half of his quotes fall into this category. This informal decision making style reflect his informal upbringing and education. Branson's parents brought up their children to be extremely independent, for instance, dropping off four year old Richard a few miles from home to find his own way back, and daring him to swim across the river before he had learned to do so. Later, Branson recalls his parents encouraging their children to have opinions even without much knowledge about the issues. He was generally a poor student and left full-time education at seventeen. We can see easily that this kind of background has made Branson rely mainly on his own instincts and intuition in his decision making.

In the theory, individual traits and background on one hand and individual cognition on the other are seen as alternative approaches to explaining enterprising behaviour. We can see a third view emerging from the stories of the three entrepreneurs. All three clearly have very different background and experiences. This supports the criticisms of entrepreneurship theory based on personality, background and experiences. On the other hand, it is also clear that their cognitive styles are also very different. It is not clear that cognitive theories of entrepreneurship have more to offer than traits theories. Instead, it seems that there is no single reason why an individual is an entrepreneur, and that for each, a mixture of diverse experiences has shaped their way of thinking which in turn has made them entrepreneurial. At best, we can say that the one thing that the three entrepreneurs have in common is that they are all highly individualistic and use this to make decisions according to a variety of styles.

### **5.3. *Learning to Be an Entrepreneur?***

Entrepreneurship theory is important because understanding what makes entrepreneurs can help create more new venture creation and help economic progress. For the theory to be useful, it should give advice how to encourage more and better entrepreneurship by identifying the underlying causes of entrepreneurship. Has the

current work help to find such reasons? We have seen that there is no unique formula for how to be an entrepreneur. Branson and Roddick say as much in the quotes presented in the last chapter. In fact, it seems difficult to try to identify common factors for a group of people who by their nature and position are so individualistic. The three stories are very different in terms of the influences of the entrepreneurs and the way in which they make decisions. On the other hand, it may be, as we saw in chapter 3, that there are certain cultures which encouraged the kind of individualism that has made the three entrepreneurial in their own ways. This would be a culture where independence, curiosity, self-reliance, ambition and motivation are seen as important. In this way, our findings support a number of alternative entrepreneurship theories explained in chapter 3, those based on traits, background, and the external and cultural environment.

#### **5.4. *Research Limitations and Further Issues***

Although our research has shown many interesting insights, we have to be aware of the limitations. Firstly, the case study approach we have used has only considered three entrepreneurs. We cannot be certain that the results would also apply if we consider more cases. There are a large number of successful entrepreneurs with different backgrounds and decision making styles. Perhaps considering more of them in future work could help to validate the results of the analysis presented in this dissertation.

A second potential problem with the case study method we adopted here is that we looked at the autobiographies of the three entrepreneurs. These are those stories from the business lives of these individuals which they wanted to publicize. It is possible that there are many instances of bad decision making they do not want to be reported. Our results could be biased through what our entrepreneurs choose to report. Another bias could happen when the entrepreneurs have selective memory of past events in their business lives. As we saw in chapter two, perception and recollection can be biased by your expectations and desires.

In the future, there could be more research based on the work we have presented here that could take account of these problems. This kind of work might therefore look at more entrepreneurs and consider their own stories and other people's objective discussions of their decisions as well as facts and data about their businesses.

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